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STATE LOTTERIES: AN OVERVIEW

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BEFORE THE

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INTERGOVERNMENTAL RELATIONS

OF THE

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GOVERNMENTAL AFFAIRS
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STATE LOTTERIES: AN OVERVIEW

WEDNESDAY, OCTOBER 3, 1984

U.S. SENATE,
SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The subcommittee met, at 9:45 a.m., in room SD-342, Dirksen Senate Office Building, Hon. David Durenberger (chairman of the subcommittee) presiding.

Present: Senator Durenberger.

Staff present: Larry Hunter, staff director; Jeanne K. Jaeger, chief clerk; Tom Berrigan, minority staff director; and Michael J. Quaranta, professional staff member for the majority.

OPENING STATEMENT OF SENATOR DURENBERGER

Senator DURENBERGER. Good morning. This hearing will come to order.

Our subject this morning is State lotteries, and I want to start by saying that I have convened this hearing not as a Federal legislator, but as an interested observer of what may be the most rapidly growing industry in America.

This subcommittee has a jurisdictional interest in the means and methods that State and local governments employ to raise revenue. And, in addition to chairing this subcommittee, I serve on the Senate Finance Committee, a tax-writing committee, which has a particular interest in the interplay between Federal and State tax policy.

Some $6.5 billion of taxpayer dollars passed to 17 States and the District of Columbia in exchange for lottery tickets over the past year. While I have no intention at this time to introduce legislation to in any way regulate State lotteries, I do have many questions which our witnesses will help us explore.

For large segments of the American public, gambling—whether promoted openly by the State or conducted outside the law—is, and has always been, a moral question. That's why it's against the law in most States—against the law, unless the lawmaking body of that State finds itself pressed for funds. The recent advent of government-supported lotteries thus raises the question of whether it is appropriate for States now to promote an activity which for most of our history the States punished as a vice.

We will, no doubt, hear that the lotteries conducted by the States are no more than taxes with the very great virtue that they are paid voluntarily, and that questions of morality are not relevant since no taxpayer is compelled to participate, nor harmed if others do. But we should ask of this "tax"—even if it be a voluntary tax—who pays? Do the games, pushed on us by the States from all sides, appeal to a particular segment of the population? Do the revenues generated come inordinately from those least able to afford this tax?

Some will say it's not a tax at all. States, by offering a game of chance, are simply selling a commodity in the entertainment marketplace. If it didn't go for this purpose, the dollar would be spent on other leisure.

But what do we find when we judge a lottery as a commodity? Is it advertised honestly? Does a radio jingle that concludes "You can't afford not to play" meet our test of honest advertising? Should the public be told that the chances of winning at "Lotto" are extraordinarily slim, or that you don't really get the million bucks, now, but over your expected lifetime, should you live so long?

Whether it is a tax or not, we can agree that it raises revenue. It's for a good cause. States are, in some sense, like public charities that have been allowed to use raffles to raise money because the money goes for a good cause. So we are asked to ignore our discomfort over the means, and to focus on the ends.

But the facts suggest that the good is only a small portion of the end. The percentage of the dollars separated from players which ends up benefiting the public is small by our usual standards of revenue-raising.

For instance, I have seen statistics that indicate that of the $54 million collected in the early days of the D.C. lottery, only $12 million went to purchase public services; $16 million was used to promote and administer the game; and $26 million was distributed to the winners. Should we tolerate a government program that turned less than 25 percent of our tax payments into public benefit?

I have a final concern that is illustrated by another kind of lottery that will be held in several States on election day, when voters consider initiatives at the polls to add lotteries and betting to their State revenue systems. I am concerned that our elected officials have somehow lost control over this industry. That we are not talking about a public charity any more, but about a private venture for the profit of a few large national corporations. How is it that despite the best bipartisan efforts of the elected leaders of the State of Arizona, that a lottery initiative was placed on the ballot and passed into public law?

And, once into the gaming business, are the elected officials of State government able to draw any line in the sand at all—to insist, that despite their desire for revenue without pain, there are some schemes so gross that they are not a public good under any circumstances. Or is every dreamer, rich or poor, fair game because the flim-flam man works under the dome of a public building?

Those are the kinds of questions that we plan to ask today. And we have some of the best experts in the country here to answer those questions from a variety of perspectives. I am indebted to all of you, who are very familiar with the State lottery business, for taking the time to prepare and deliver expert testimony and to respond to our questions here today. I will ask our witnesses to try to limit their testimony as much as possible to 6 or 7 minutes to allow the maximum time for question and answer. Should we run out of time for questions, we will submit them together with your written responses for the record.

Our first panel of witnesses are presently involved with State lotteries. First is Mr. Martin Puncke, director of the Maryland State Lottery and president of the North-American Association of State Lotteries. Following Mr. Puncke is Mr. Daniel Bower, president, Scientific Games, Inc. Mr. Bower and Scientific Games have been instrumental in establishing many lotteries in the United States and Canada. Then Mr. Edward Trahan, president of Trahan, Burden & Charles advertising firm. Mr. Trahan's firm is responsible for the marketing plans for the Maryland State Lottery. Last year these ads were said to be some of the best in the lottery business.

If you are all three here, come up and grab a microphone. I think it is Mr. Puncke, Mr. Bower, and Mr. Trahan, according to the nameplates as I see them here.

We will begin with Mr. Puncke, director of the Maryland State Lottery and the present president of the North-American Association of State Lotteries. We appreciate very much your being here today.

TESTIMONY OF MARTIN M. PUNCKE, DIRECTOR, MARYLAND STATE LOTTERY, AND PRESIDENT, NORTH-AMERICAN ASSOCIATION OF STATE LOTTERIES; DANIEL W. BOWER, PRESIDENT, SCIENTIFIC GAMES, INC.; AND EDWARD TRAHAN, PRESIDENT, TRAHAN, BURDEN & CHARLES ADVERTISING FIRM

Mr. **Puncke**. Thank you very much, Senator.

Mr. Chairman, and members of the Subcommittee on Intergovernmental Relations, as president of the North-American Association of State Lotteries, I am pleased to make the following general comments concerning lotteries in the United States.

To have or not to have a State lottery is a serious question which must be answered by the people within each State. There are two main points which arise when the question is debated. First, almost every State in the Nation has the constant problem of meeting the demands of its citizens to finance additional and ongoing projects as well as meeting the inflation rate to maintain support of future programs. Retaining or obtaining additional revenue is a never ending effort on the part of all State governments.

Second, the Commission on the Review of the National Policy Toward Gambling which completed a 3-year study in 1976 for the President of the United States, stated, "Gambling is inevitable. No matter what is said or done by advocates or opponents of gambling in all of its various forms, it is an activity that is practiced, or tacitly endorsed, by a substantial majority of Americans." The Commission also found that more than 80 percent of Americans now regard gambling as an acceptable activity, and two-thirds of the population make wagers of one kind or another.

Taking a chance, whether it be in a gamble, a contest, a business venture, or in life itself, is a universal instinct which cannot be eradicated. The Commission report of 1976 also stated, "It is not a question of whether people will or will not gamble, but it is only a question of who they will game with—a legal or illegal activity."

In an attempt not to oversimplify the issues, the proponents will state: one, taking a chance is instinctive; two, illegal gaming laws are difficult, if not impossible, to enforce, therefore, they are meaningless; three, it is a relatively painless way to raise public funds; and four, the compulsive gambler will exist whether the gaming is legal or illegal.

The opponents will state: one, all gaming is immoral; two, if legalized, more people will participate; three, it will increase crime; and four, "natural instincts" should be controlled and regulated in the public interest.

The question is not simple when you ask yourself a few very basic questions. Is it wrong to play bingo at a church bazaar? Is it wrong to buy a 50-50 ticket at a political or fraternal organization function? Is it wrong to accept a chance to win in a sweepstakes from a national readers magazine? Is it wrong to play a lottery? I will not attempt to answer these questions, but they are food for thought when considering the overall question.

I believe a legal lottery is an appropriate function of State government providing the lottery was legally formed by the State legislature or was initiated by public referendum and approved by the general population of the State. The lottery then becomes a legal entity of the State and should be accepted and supported as such. I further believe that this type of revenue has proven to be a dependable revenue source and should be allowed to operate by the State without infringement by any other level of government. States should have the primary responsibility for determining what forms of gambling may legally take place within their boundaries.

A regressive tax is a tax which is applied to the entire population equally regardless of the financial status of any individual, thereby taking a larger percentage of the income from a low income group in proportion to a higher income group. Several studies conducted by various authorities, most recently by Gallup in New Jersey, clearly and consistently verify the fact that lower income persons do not play the lottery in a greater proportion than their income group is in proportion to the general population.

No one is required to play the lottery, it is strictly voluntary. It is a consumer product which competes in the free marketplace, and has prospered and grown. Because of that success, lottery States have more nontax money for general public services.

It is difficult to find a definition of the word "regressive" as used by lottery critics. In most cases, it appears to mean that it costs a person with a low income a higher percentage of his dollars to buy an item than it does for a person of a higher income.

If the definition is accepted, then there are very few things—the notable one being the progressive income tax—for which the critical definition of "regressive" does not apply.

We are all aware that the most regressive form of taxation is the sales tax because it is levied without regard for an individual income level and the poor pay a disproportionate amount of their income toward such a tax. A tax is compulsory while the purchase of a lottery ticket is discretionary.

The lottery industry has reached a high degree of acceptability during the past 20 years since the New Hampshire lottery was instituted. The State directors are highly qualified, experienced businessmen; the manufacturers of data processing hardware and software are owned by some of the major corporations in the country; and suppliers of materials, such as instant tickets, ticket stock, and other supporting supplies are also of the highest quality.

The greatest single criterion of a successful lottery is the integrity of the game and its administration. The directors and those companies representing the industry are very conscious of this responsibility and are extremely careful to protect the image enjoyed during the past 20 years. No State has experienced a violation of this trust and no State has had any indication of infiltration by organized crime as some of the critics allege.

There is a variance as to how each State distributes or uses the revenue earned by their lottery. Most States place the revenue in the general fund of the State where it is distributed by the administration with the approval of the legislature. Others dedicate the revenue to a specific cause or program such as education, senior citizens, open land development and recreation or some other variation. The North-American Association of State Lotteries does not take a position that one procedure is more appropriate or beneficial than another. It is the responsibility of a particular State to determine that need based entirely on the need and precedent of the State considering the legislation.

It is my opinion that every State in the Nation has some legislator in their legislature who is looking into and possibly introducing lottery legislation. During 1983 and the spring of 1984, 34 State legislatures considered some type of legislation concerning this subject. Many States, where the legislation failed to clear committee or was defeated on the floor, will most likely see the same or similar bills reintroduced during the next session.

In summary, the following statements clearly indicate that additional States will pass lottery legislation within the next few years:

One, State government needs additional revenue to support programs.

Two, the present State lotteries have proven that a lottery can be administered with integrity, reliability and provide dependable revenue generation.

Three, "state of the art" technology is available and constantly improving.

Four, public opinion polls indicate the acceptability of the lottery.

Five, lotteries have given State governments the opportunity to fund many important programs with a reliable revenue source that is totally voluntary—a welcome relief to today's over-taxed citizens.

I will be very glad to answer any questions.

Senator **Durenberger**. Thank you.

Mr. Bower?

Mr. **Bower**. Thank you, Mr. Chairman.

You have asked me to address two topics, the types of lottery games available to the public and the role that Scientific Games plays in establishing State lotteries across the United States. Please allow me to address each one in turn.

There are currently four "generations" of lottery products being played. The first is what is commonly referred to as the "weekly lottery." This is the game which was used when the modern lottery first started in 1964 in New Hampshire and was the dominant product through the early 1970's. The weekly lottery is played with a ticket on which there is printed a play number. It is very similar to a raffle ticket in appearance and in play, although the method of computer controlled production is substantially more sophisticated to protect the integrity of the lottery. A player buys a ticket and waits for a weekly drawing to determine whether the number on his ticket matches the numbers drawn. If he does match, he wins a prize.

The second generation of lottery products is the instant lottery ticket. It is sold by 17 of the 18 U.S. lotteries. We were the first suppliers of this lottery product when it was first used in Massachusetts in 1974. The instant ticket has play data which is concealed by a removable latex material. A player buys the ticket, scrapes off the latex material and "plays" the ticket according to instructions on the ticket. For example, the instant ticket may be for an instant game which uses a "match 3" theme. In that type of a game, when a player removes the latex, he finds six play symbols which are usually dollar amounts. If a player gets three identical play symbols, he wins the prize corresponding to that play symbol. For example, if he gets three play symbols of $10, he wins $10. So that you can get a better idea of what an instant ticket is like, I have available for you samples of instant tickets we have produced.[1]

In the instant game, a State purchases a specified quantity of tickets constituting one "game." Each game has its own game theme and prize structure. The game generally is on sale for 9 to 12 weeks, before a new game is introduced. The game has a predetermined prize structure which is set by the State. Winners are of two types: instant winners and grand prize drawing winners. As the name connotes, the instant winners are those which can be won "instantly" by rubbing the ticket. Some States also have grand prize drawings. Eligibility for entry to the grand prize drawings is defined by the State and can be such thing as winning a specified prize level, collecting a specified number of losing tickets, et cetera.

Instant prizes range from free tickets to low dollar prizes to high instant prizes such as $10,000, $50,000, or $100,000. For a grand prize drawing, the top prize is usually $1 million or $1,000 a week for life. Currently, the instant game accounts for approximately one-third of lottery sales.

The third generation lottery product is the "online system." This was introduced in the mid-1970's. The online system is a series of terminals which are similar in appearance to cash registers and which are geographically dispersed throughout a State. The terminals are linked up by dedicated phonelines to a central computer site, usually at the State capitol.

There are currently three types of oneline games. The first online game which was introduced was the three-digit game, commonly referred to as the "numbers game." This was based on the illegal numbers game and designed to compete with the illegal numbers game—which it has done successfully. In this game, a player approaches the agent who has a terminal and selects three digits. The agent enters those three digits at his terminal and that play is recorded at the central site via the dedicated phoneline. On a daily basis, there is a random drawing of a number and matching that number in prescribed ways wins prescribed prizes.

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[1] See tab A of material submitted by Mr. Bower on p. 341.

The second type of game playable on an online system is the pick four or four-digit game. It is basically the same as the three-digit game, except obviously that it uses four digits. Usually the drawings in a four-digit game are less often than daily, for example, twice a week.

The third type of game in the online system is increasingly becoming the most popular. It is the lotto game. In that game, a player picks six numbers out of a specified array of numbers such as 36, 40, or 44. A certain percentage of the revenues is placed in a grand prize fund which is only paid when an exact match of the six-digit number is made. The drawings are once a week. If there is no exact match, the percentage of the prize fund allocated to the top prize then "rolls over" to the next week. In this manner, increasingly large "jackpots" are generated, such as the recent $40 million jackpot won in Illinois. Another portion of the revenues obtained from the sale of lotto tickets is dedicated for lesser prizes. For example, matching five or matching four of the six digits entitles the winner to a specified prize.

Seventeen of the eighteen lottery jurisdictions in the United States currently have contracts for online systems. The online system lottery products account for approximately two-thirds of the revenues generated by State lotteries.

The fourth generation lottery product is the video lottery or player activated lottery machine [PALM]. This product is currently being tested by the Illinois State Lottery. Like the online system, the video lottery involves geographically dispersed terminals hooked up by telephone line to a central computer. Like the instant lottery game, a player can determine instantly whether he has won and does not have to wait for a drawing. The PALM is an unattended terminal that looks like a video amusement game such as Pac-Man. A player inserts his money into the PALM and plays an amusing and entertaining video game. While the player is playing the game, the PALM's computer system randomly determines whether that player is a winner of a lottery prize and, if so, the amount of the prize. At the conclusion of the game, the PALM announces to the player what prize he has won, if any. Receipts are printed in the PALM and issued to the player for the prize won. Those receipts are then redeemed through normal lottery redemption channels.

The second subject you asked me to address is what role scientific games plays in establishing new State lotteries. As I mentioned earlier, lotteries are our only business. Accordingly, in order to expand our business, we rely to a large degree on the establishment of new State lotteries. We consider it a legitimate business activity to support those in States who would like to establish a lottery in their State. Indeed, such a business activity is well-precedented in our democratic system of government.

Because the establishment of State lotteries is so important to our growth, we actively support any efforts in that regard. For example, we supply information about lotteries to State officials, legislators, or anyone else interested in starting a State lottery. Similarly, we provide expert testimony in State legislative hearings dealing with lottery legislation. We advertise our willingness to supply this type of information. We obtain a substantial number of requests for information and support in connection with this overall effort.

At times, when a State legislature is actively pursuing lottery legislation and it appears that there is a possibility of passage, we may become more directly involved with that legislation. That involvement may include direct contact with legislators in that State. In certain cases, we also retain a lobbyist to assist in the passage of the lottery legislation, which we did in one State during the 1984 legislative session.

A third activity on our part involves the support of public initiative campaigns or lottery ballot questions. We supported the campaign for public votes on a lottery in three jurisdictions in 1980 and are contributing to initiative drives in two States this year—out of the four States which have lottery ballot questions for the November election. I am often asked what factors are relevant in our determination to support an initiative drive.

Generally, if public opinion polls establish that there is substantial popular support for a lottery, and if the legislature in that State has failed to respond to that public desire for a lottery, we consider the initiative process an appropriate way to implement the public's desire for a lottery.

In connection with all of our efforts to support new State lotteries, a primary goal is to make available information and data so that people understand what lotteries are and so that certain myths about lotteries are placed in their proper perspective. The following are some of the general subject matters that we are inevitably asked to address:

General information about lotteries; mechanics of legalizing a lottery; economic benefits from a State lottery; myths about a State lottery; lotteries and the poor; lotteries and crime; compulsive gambling; and lotteries and the parimutuel industry.

Mr. Chairman and members of the subcommittee, this concludes my comments. I trust that I have adequately addressed the two issues you have asked me to address. Lotteries are a tremendously popular and painless source of revenue. A survey by the University of Michigan, done in 1975 for the National Commission on Gambling, showed that 82 percent of the residents of lottery States approve of lotteries. Nationwide, the figure for approval is 71 percent. A more recent University of Michigan study found that public support for gaming increased dramatically in America between the date of their first survey and 1982.

With that ever-increasing popularity, it is understandable that more and more States are considering the establishment of a State-operated lottery. I commend this subcommittee for conducting these hearings on this very current topic. I appreciate the time you have taken to listen to this testimony and offer to provide whatever additional information you may need.

Senator **Durenberger**. Mr. Bower, let me just make an observation. As an elected official, I am having some problems in agreeing with what it is you are bringing to society. At the same time, however, in my 6 years here, this is probably the best and the most straightforward piece of testimony that I have had from an obviously interested witness in any one of the four or five committees and umpteen subcommittees that I have been on. From reading your statement, and from listening to your testimony, I get the feeling that even though it could be, in some cases, against your interests to do so, you certainly have said everything there is to say about the business, and of your interest in it. And whether I agree with your conclusions or not, you have greatly contributed to the purpose of this hearing, which is to thoroughly explore the issue of State lotteries.

I just wanted to compliment you for being so forthright.

Mr. **Bower**. Thank you, sir. Our philosophy, and I think the reason we stay in business is that we tell the whole story, and if there are warts, we tell about the warts, also.

Senator **Durenberger**. Thank you.

Mr. Trahan, you are in the public relations business. I hope I can say the same thing about somebody in your line of business.

Mr. **Trahan**. Thank you, Senator.

A lottery ticket has characteristics which find no parallel in the world of product or service advertising. Any product or service which comes to mind exists because it delivers a predictable benefit to the consumer, however marginal that benefit may be. Product loyalty is built into the consumer's behavior because time after time he experiences some kind of gratification or reinforcement.

Advertising plays a critical role in reminding, promising, and reinforcing the reasons a consumer should utilize a particular product or service. Conventional advertising strategies which would be most effective with a typical consumer product do not apply to the lottery industry, because a lottery ticket does not have the characteristics of the average consumer product.

The inescapable fact of probability tells us that the great majority of ticket consumers will experience failure after failure. In this context, the idea of continuity in an advertising campaign over a long period of time will not encourage an increase in sales.

Unlike advertising a consumer product where constant exposure of the brand reinforces the experience of satisfaction and invites the consumer to relive that satisfactory experience, constant exposure of a lottery ticket and agent location has the opposite effect. It reminds the majority of purchasers that they didn't win, creating a negative impression that inhibits repeat purchases.

Since it is ineffective and most often counterproductive to advertise a lottery ticket as a product, we have created a series of television and radio commercials which highlight the fun of playing the game and take the onus away from gambling. We want to feed the consumers need for fun and excitement propelling the fantasy which motivates them to buy the next ticket.

Now, in the initial stages of a new lottery game, almost any advertising approach is likely to succeed because everyone thinks that they are going to win. All the advertising has to do is hold forth the carrot. It is only after the various games have been around for a while and the negative gratification begins to set in that the job of selling future expectations becomes more difficult.

Selling games of any sort requires a significant amount of diplomacy. As tolerant and even eager as most people are when it comes to being sold on legalized State wagering, the subject is still a sensitive one for a small percentage of the population. Humor and creativity play a major role in our advertising for the Maryland State Lottery. We keep the emphasis on the fun of playing while providing a balanced education and public relations program.

The Maryland State Lottery advertising program, in keeping with the profile of the average middle income North American lottery player, is targeted to reach adults between 18 and 54 years of age, with a high school education or better and a household income of $20,000 or more. We have included sections on agent location sales correlation, budget, media, comparative demographics, and sample creative.

These submissions provide an overview of the elements in a marketing plan which help us to create, promote, and sell the lottery.

Now, each year, the Maryland State Lottery submits a detailed accounting of operational expenses to the State division of budget. The needs of broadcast, public relations and production are included as a part of the operating expenses. The Maryland State Lottery operates on four-tenths of 1 percent of advertising to gross sales. It is particularly interesting to note that the Maryland State Lottery has the lowest percentage of advertising-to-sales ratio among lottery States and continues to produce the highest per capital sales in the country.

In fiscal year 1984, the Maryland State Lottery produced $536 million in gross sales. Now more than 50 percent of the money was returned to the players as prizes, and over $216 million was deposited in the State general fund. Since its beginning in 1974, the Maryland State Lottery has contributed over $1.3 billion to the Maryland general fund.

The majority of television advertising is dedicated to the Baltimore and Washington ADI's areas of dominant influence, as you will see from the maps, and Baltimore and Washington ADI's together reach 97 percent of the populace. We use radio to support seasonal promotions and to reinforce the television message. Newspapers and magazines are selectively targeted for exposure of the education public relations message.

Maryland State Lottery spends a minimum of 10 percent annually on advertising for the express purpose of explaining where the lottery money goes, a pamphlet of information is available from lottery headquarters and is distributed to all agent locations. The series of television, radio and newspaper adds created by Trahan, Burden, & Charles highlights the services provided through the State general fund, the campaign created for health, education, and human resources has been recognized by the World Institute of Black Communication, Inc. for sensitivity to the minority market.

Now you'll see the TV spots for education, and I hope you will take a minute to look at four commercials we have created for the

Maryland State Lottery which I think will give you our approach, versus the one you have commented on in your opening remarks.[1]

That concludes our presentation. We do say if you play everybody wins in Maryland.

Senator **Durenberger**. Thank you very much.

If you want to do political advertising, I might have a candidate for you in 4 years.

Let me start with my first impression. I rarely watch television because I claim I am too busy, but I have seen every one of those, so apparently you are either terribly clever, or you have great penetration, or great placement when politicians are watching.

But my impression is this: What I have just heard is that States need money. I know there are needs out there, whether they are in education, human services, or whatever. States need money, but the politicians can't raise money up front, because they can't raise property taxes, sales taxes, or income taxes. The public says, "You are wasting too much money, you are not spending it in the right places, there is all kinds of waste in your spending." That is the sort of political environment we are living in.

Then there is the evidence, according to Mr. Puncke, in particular, that everybody, or most everybody, is going to gamble. That it is a human impluse and that sort of thing; the only question is whether it is legal or illegal.

Again, this is only an observation which I have gathered from your 5 minutes of testimony. It strikes me that we have found a wonderful way to make sure nobody gambles illegally. We have just found a marvelous way to legalize what a lot of people used to think was a vice. Gambling will always be with us. It has been made, to a large degree illegal. But now we have combined the need for revenue with the basic impulse to do it anyway, and legalized this whole process, and, whammo, away we go. There are lotteries and "Lottos," "Pick-4's," and whatever.

Have I captured it in a sense?

Second, do either of you want to predict which of the presumed vices we will commercialize next? It seems to me that prostitution, for example, is something that a lot of people have practiced and paid for. We have made this vice illegal. But if we could find some way to turn it into a public good, in terms of using the revenue for orphans, for example, or to fight abortion, should we do it? Would this be a smart thing to do to unhook us from some of these so-called puritan notions that we have had in this country, to just say that certain things like gambling are basic to human nature? Then we have found a way to justify it and make a little money besides. But is that the way to look at things?

Mr. Puncke?

Mr. **Puncke**. Mr. Chairman, if I may address some of the questions, if I may.

Senator **Durenberger**. Yes.

Mr. **Puncke**. I think when you have legislation that is being introduced in a State, and in most of the States this has resulted in a referendum. The referendum has gone to the people, and without exception approximately 3 to 1 the general public has made a statement through their votes that they would like to have a lottery.

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[1] Transcripts of the commercials begin on p. 106.

I don't think it is quite appropriate to say it is all on the politicians, it is all on the State legislature or the chief executive of that State.

Mr. **Durenberger.** I agree with that. That is the whole point of my question. It is not in the politicians' hands any more. Its advocates have gone around and grabbed this soft human instinct, and have added great commercials to it, and they have gone completely around the politicians.

Mr. **Puncke.** The commercials are used to keep the product, if I can call it a product, to keep the product in front of the people.

If you look at the financial part of it, and I will talk of Maryland now, which I am more familiar with than any other State. We are contributing over $200 million, $215 million a year to the general fund for programs that are needed within our State. I think the question comes up, "Let us eliminate the lottery." If we eliminate the lottery, several things have to happen, or two things basically. No. 1, you discontinue all the programs that are supported by this $200 million, or you find another revenue source.

In Maryland, we could raise $200 million by adding 1 penny to the sales tax. We could raise $200 million if we add 1 percent to the income tax. We could also raise $200 million if we increased the property tax on assessed value at 23 cents per $100 of assessed appraisal value to 73 cents.

Now, those are the ways, and I am sure that there may be other ways of raising revenue, but those are the alternatives if you want to support the programs, and I think as I indicated in the advertising we support agencies to the blind, 35 percent of our money goes to education, 24 percent of our money goes to mental health hospitals and mental hygiene, and it comes down through the spectrum of all the programs in the State agencies in the State that are supported by the general fund money received 5.76 percent of their money from the revenue of the lottery.

That's the good side.

Now, you can——

Senator **Durenberger.** I understand that part. But I'm concerned—and maybe I can ask you, too, Mr. Bower, because you were so up front in your presentation. Am I way off base here? I don't mean to say we designed it that way, but isn't that sort of what has evolved out of this whole project?

Mr. **Bower.** I don't say you are too far off base, but you neglected one thing as it pertains to gambling. Controls are a very, very important thing when you are gambling, knowing that you are going to have the same shot as the other person and it is going to be operated fairly and with integrity. You don't always get that when you are gambling in the illegal games. Sometimes when you go to collect, it is difficult to collect your prize.

The other part is when you talk about going around the politicians. I think that many times this is a subject that the politicians by their own choosing choose to ignore, because there is an element or a group that does not approve of gambling for moral reasons and they have every right to that opinion.

Senator **Durenberger**. You have the existence of these opinions in every State, and the politicians aren't sure how to play that. Is that your point?

Mr. **Bower**. That is a good part of it. I have seen this debated in the halls of State legislatures, and I have seen legislatures vote against a lottery referendum. Then I will see 2 or 3 days later the leading newspaper in the State takes a poll and 76 percent of the people are for it, and I have had legislators say, "Well, if I only knew that. I'm not against it. I didn't know that the people are behind it that much."

So I think there is a great deal of misinformation or lack of information, or lack of touch between legislators and the people on this issue.

Senator **Durenberger**. OK. Now let me ask a couple of other questions.

One is this: By using the early D.C. example, I was making the charge that lotteries are a relatively inefficient way to raise money for the blind, the disabled and education. Sales tax, I know, is hard to raise, but 98 percent of the sales tax money gets out there into education and 2 percent stays behind for administration.

Now, it strikes me that a much smaller amount of dollars from lotteries is actually ever used to educate the young child. What is that figure—20 percent, 25 percent, 30 percent? Do you want to break that out for us? How much you have to pay in prizes, how much to run the program, and how much is actually left to the Government to spend on public services?

Mr. **Puncke**. I think again I can refer to what we're doing in the State, and we have charts and statistics to back it up; 49.2 percent of all the gross revenue we receive goes back to the individual in prizes.

Senator **Durenberger**. 49.2 percent?

Mr. **Puncke**. 49.2 percent. All of the games are basically designed to pay 50 percent back to the individual prize holder. The differences in this is that some tickets aren't cashed and that is where the difference comes on the percentage; 42.8 percent of the money collected by Maryland goes to the general fund. We have 5.5 percent of our money going to the agent who sells the ticket, and we have an overhead cost of 2½ to 3 percent is what it costs to operate the lottery.

So now if you take the 50 percent back to the player and the 5½ percent back to the agent——

Senator **Durenberger**. The agent is the seller, the store out there that sells the lottery ticket?

Mr. **Puncke**. He is the fellow who does the actual work of selling the tickets for us. Therefore, he is entitled to a commission for the service he is rendering to the lottery. This causes and results in additional employment by these people, additional revenue now to the local businessman throughout the State because he is selling a product for us, he is rendering a service. So that money doesn't come and go to some unknown person over here. That goes back into the community.

Senator **Durenberger**. That leaves us only with something under 2 percent that goes to pay for the commercials and that sort of thing.

Mr. PUNCKE. My budget in Maryland is running around $17 million to operate a $550 million corporation or business, if you want to put it into a business context.

Senator DURENBERGER. OK.

Mr. Trahan, do you want to add to this discussion? We have 50 percent in prizes, 42.8 percent in Maryland going to the General Revenue Fund, 5.5 percent to the agent or the seller—the agent for the seller.

Mr. PUNCKE. The agent-seller.

Senator DURENBERGER. Right. And 1.7 percent left to run a commission and its employees and produce this great advertising.

Mr. TRAHAN. The only thing I would add is, I had a figure of four-tenths of 1 percent of gross sales went for advertising. Four-tenths of 1 percent, which is very, very low in any product.

Senator DURENBERGER. What media do you use beside television? Is this the main medium?

Mr. TRAHAN. We use radio, but the main medium is television.

Senator DURENBERGER. All right. While I am on that subject, then, I have two related questions.

I am not sure what gets people interested in lotteries. I am not sure whether it is the fun and the fantasy you have to create when they are getting down about not winning, or whether you have to get them excited about their civic duty or their personal wish to do it. But I suspect it must be the prize, because I understand people were lining up at O'Hare Field for the better part of a week when the grand prize for the Illinois lotteries got up to $40 million.

How high a prize is necessary? Does anyone want to tackle that one? Is $40 million necessary, or $20 million, or $1 million? Couldn't we just pass out $5 to half the winners?

Mr. PUNCKE. Mr. Chairman, if I may answer on that question, the major prize is the incentive to play. Lotto, and it only occurs in the lotto game, is a high prize game—therefore one individual in this room would want to play lotto. They would not play the low-digit and four-digit games or the instant game. They are only interested in putting down $1 if I can win $1 million or $10 million, or whatever. Because they say the odds are long if I am going to invest $1 I am going to go after something that is going to be substantial.

On the other end of the scale, you have the individual who wants to bet 50 cents or $1 and is very satisfied to win $40 to $80. Now they have much more chance of winning because the whole thing is a mathematical odds procedure that is involved. They have much more chance of winning, so Mr. A. wants to play the big game and Mr. B. wants to play the other game because that is what they like to play.

I think I can go in that type of context. You have different people who want to play the different levels of the game.

Senator DURENBERGER. OK. then in that same connection, and maybe I will ask this of Mr. Trahan, with most products, marketing consists of creating loyal customers and reminding the folks of the gratification they experience when they use the product.

It seems to me at least with certain kinds of lotteries, and lotto in particular, maybe it is a little bit different because so few people win. So doesn't your task sort of boil down to convincing people that they ought to ignore their best interests because it is really not very likely that they are going to win—convincing them they have to get in it for the fun and the fantasy. Isn't that a different kind of a sales job you have here than you would selling some other products?

Mr. **Trahan**. I agree, and I think the fun of playing is as we put on in the commercials. I know a lot of people gather at 7:30 on Saturday evenings and it is part of the festivity to take their lottery tickets, wait for the show to come in, count the numbers, and they pay on four and five on lotto, so there are a lot more winners than just the jackpot winner.

I know a friend of mine whose mother gave her a three-digit number for the year as a birthday present. You talk about a gift that reminds. If she won twice during the year, she thought of her mother twice. You know.

But it is more than just gambling experience.

Senator **Durenberger**. OK.

Let me take this another step further with teenage kids, or those who are moving out of the teens now. I have been through all that experience, and I have seen Pac-Man games come and go and video games come and go and the parlors closing up.

As I listened to your testimony, Mr. Bower, about the evolution of the product now on the market, it seems to me, again, because we are playing to people's impluses, not necessarily their economic interest, but a lot of their feelings and so forth, that we have a problem here in making these games always more exciting. And to that extent, I suppose you could say more extreme. Is there a point at which public officials in particular, ought to be concerned that we have gone too far, or that we are going to go over the edge in terms of neglecting our responsibilities towards those people to whom we have sold this product?

For example, we started out by looking like the stuff you get from Reader's Digest, and now we have them in parlors where you can play them on video, and I don't know what is coming next.

So how do these public officials out there know when they have gone over some kind of a threshold?

Mr. **Bower**. Let me address that question. First of all, for minors to play the lottery in every State is against the law, and there have been agent prosecutions in States where evidence has been found that lottery tickets have been sold to minors.

When you get to the video lottery machines that are in Illinois, every one of those machines is in a licensed liquor location, and no machines will be put into any arcades or anywhere where minors can play. They are all in bars and lounges, and their activity is controlled.

Senator **Durenberger**. Let's skip the minors. Let's get to everybody else, who may be less mature than some of our teenage kids. Tell me where this is headed. What comes next after we get bored with, what is it, the fourth, fifth, or sixth generation we are in?

Mr. **Bower**. If I knew where it was headed—if I thought 10 years ago in 1973 when I started this company with Dr. Kroza that it would be where it is now, I would have been a lot smarter. I had some ideas of where it might be headed, but I have been wrong.

I think that all of us in the lottery industry looked with great trepidation at the State of Illinois when—and I think we all said it would just be terrible for one person to win $40 million. We hoped that may be 10 people would share $40 million, and we all thought that the sun and the moon and the skies would fall and it would be a terrible thing for the lottery industry.

But it wasn't. It didn't happen, and there is a person in Illinois who is very, very happy winning $40 million, and it seems like there are millions of other people in Illinois who are happy for him.

So yes, it is a lottery, but it is also a social experience.

If you look at the people in Illinois and the people in New York, they were having fun, and they were relating to each other.

So whether you call that a byproduct, and I mean b-y, not b-u-y, I think that in many ways the $40 million was good for the State of Illinois.

Senator **Durenberger**. Mr. Puncke, let me ask you if there is a particular kind of commission or a board, or an oversight agency, which has proven to be more effective with regard to lotteries than any others? Could any one of you describe the typical State gambling board or its powers and functions and activities? Mr. Puncke, you are the national chairman of one of the associations.

Mr. **Puncke**. Yes. If we are talking from a State level basis, States have a director who is responsible to the director of revenue or the Governor directly. Other States, the director is responsible, but he has a commission made up of five appointed individuals that are watching and supervising—not supervising, but actually guiding him—to be sure the thing is run correctly within his State. You have some situations with reference to the D.C. lottery which when it was formed in its legislation, the commission was the guiding light with the director being the subordinate.

We have three different levels. As far as nationally is concerned, the North American Association of State Lotteries is made up of the directors. The directors meet three times a year to exchange information, and the question of what is a big prize, should it be limited; how will it be administered, this will come up this month in Portland, ME, where we are having the meeting. This will be a subject. Should any State allow it to go to $40 million, and if not where are the levels, how should we do this in order for it to be basically acceptable.

Senator **Durenberger**. Now, let me ask you some questions about the advertising that is used to sell lottery tickets. Does the Federal Trade Commission look at those ads?

Mr. **Puncke**. Yes, every ad that we have must be cleared by the authorities that Mr. Trahan has to comply with on proper advertising and whatever those regulations may be. It has to clear that before we even get to the point of the developing an ad and putting it on the market for showing. I think Ed may be able to talk more about what that requirement is in the licensing.

Senator **Durenberger**. Mr. Trahan, I am trying to get at the differences between what I get from Publishers' Clearing House and what I get from the Maryland lottery. I have been, somehow, given the impression that the FTC is protecting me from the Publishers' Clearing House and those folks, but that they really don't have much jurisdiction over State lotteries. Maybe you can tell us what the appropriate jurisdiction is in this area of advertising regulation.

Mr. **Trahan**. There has been self-regulation within the lottery industry, and that is not promising large, large prizes, not showing a person going, sitting in the kitchen to sitting in a mansion.

Senator **Durenberger**. Does anybody want to say what the rules are? What is an honest ad campaign, or if it is the State government, can we get away with conning everybody we please until somebody starts screaming?

Mr. **Puncke**. We follow the regulations of honesty of advertising of all the criteria that all advertisers follow on all products. We have to follow those same rules when we are developing advertising. It cannot be misleading. It cannot be false and the other factors that are involved in those regulations.

Senator **Durenberger**. OK, but in many other areas—and I just mentioned the comparable type of situation with Publishers' Clearing House—the Government has gone beyond the voluntary advertising council guidelines. The government has actually, at the FTC level, and in some States, seen fit to set some guidelines of one kind or another on what is fair advertising. And I have the impression that, somehow, none of that applies to State-run lotteries. Only the voluntary guidelines.

Mr. **Bower**. The Federal Trade Commission has some guidelines. I am sure they are available. I don't have them with me. But I am sure there are——

Senator **Durenberger**. We will put something in the record.

In the first or second television commercial we viewed, there wasn't any information on prizes or anything like that. And I know that if Publishers Clearing House wanted to run ads like that, the FTC would have them in court. Is there a different standard that applies there?

Mr. **Bower**. The reason that in those commercials you didn't have anything on pricing is that they were for a daily numbers game or lotto, and you can bet 50 cents, you can bet $2, you can bet $3. It depends on what level you want to bet the number at. So there is no specific price for that particular game.

Now, if that had been an instant lottery, normally they sell for $1.

Mr. **Puncke**. Mr. Chairman, I think we may hopefully have an answer for you. There is a National Association of Broadcasters Code of Ethics that the television stations and radio stations have to comply with in putting advertising on the air.

Our lottery complies with those same regulations that are put out by the Federal Trade—I imagine—and we comply with that code, that is set up, and we cannot create an advertisement, and there is no use of us creating it if we cannot get the television people to show it, they screen it. If there are any problems with it, it is pulled off. So we are controlled by that code of ethics the same as any other——

Senator **Durenberger**. I understand that. I just want you to tell me, "Yes, there is a difference, Senator, between what we can get by with and what Publishers' Clearing House can do. Yes, Senator, there is a difference in what we can get by with and what McDonalds can get by with."

When you go into McDonalds, some place in the fine print, which kids can read, it gives you some indication of the probability of your winning. But I don't get any notion of what my probabilities are out of any of this advertising or out of some of this other material I have looked at.

Mr. **Trahan**. The commercials for McDonalds don't carry the probability.

Senator **Durenberger**. But when you get down to the printed material.

Mr. **Trahan**. All of our printed material does carry all the probability numbers.

Senator **Durenberger**. I am just trying to find out, is there any distinction at all between the regulations that apply to——

Mr. **Trahan**. Broadcast codes.

Senator **Durenberger**. Maybe you can elaborate. I have raised the issue, and maybe each of you can elaborate on it by comparison with some of these other examples that I have given.

Mr. **Puncke**. I think, to make a couple of flat statements, we comply with the National Board Code of Ethics. All our materials have the odds on it. We are explicit, and locally we have to do this to protect ourselves, the rules of the game, and odds of the game, and on all points of sale and in the information we put out on how to play the game, we are careful that those odds are published, because they have to be.

Senator **Durenberger**. The reason I am raising this is that I am not just your ordinary citizen. I got elected to do some good for some folks by raising some money from some people and helping deliver services to somebody else, and while you haven't been elected, you are almost in the same position. And it strikes me that there's a difference between our raising taxes and those 49.8 percent, or whatever it is, of lottery funds going into these good purposes.

Maybe we should be a little clearer about the probability of winning. Maybe we should be a little bit more open about the fact that you are really not getting $40 million, you are getting an annuity, and maybe we should be more open about the ratio of prizes to dollars paid.

I am raising that as a question. Yes, I can tell, now, the advertising confirms that you are not ripping anybody off deliberately and that sort of the thing.

The larger issue is, you know, that we are different from Burger King, McDonalds, and everybody else. Maybe we do have more responsibility in this area to the folks than they have, and I don't see that we are even discharging the same responsibility. But I am asking you if we should be telling them more about realities of winning.

Mr. **Puncke**. I think you stated you had seen all our advertisements. I am sure you have seen the 10-second one which says that the lottery prize this week is $1 million, $2 million, $3 million. That statement is always in there. The estimated annuity value this week is $1 million each so that is put into every one of those 10-second slots. We cannot give the odds and all the details of how to play a game on a 30-second commercial, but we do it in all of our handouts and the other material that we have, and basically, Senator, we are in a business that fluctuates on the acceptance of the product.

If I as a director go out into left field and propose something, I am going to be attacked, No. 1, by the administrator who appointed me. No. 2, by the commission who is advising me, and No. 3, and most important, is that if that product does not sell and the public does not want it, there is no more lottery, regardless whatever you do in advertising or anything else. It is not there because you have a product that is not acceptable.

Senator DURENBERGER. Well, that is the whole essence of where we are going here. You know what will sell, and it strikes me that you have got to keep the hype up, and you have to keep changing the product, because people become weary of this after a little bit, unless I am missing something.

Mr. PUNCKE. Our advertising effort is designed to keep the product in front of the public. We do not go in with what I would classify as a hard sell type of advertising that may be used by car dealers or used car dealers, or something like this.

We stay away from that, and each one of our ads is evaluated as to how it would be accepted, and, as Mr. Trahan said, we do it to try to insinuate the fun game, the entertainment. I was thinking a minute ago when they were talking about the instant tickets. There are nine numbers to be rubbed off. One lady took the ticket home and every night she sat down and rubed one number off. So she had nine nights of entertainment for her 50 cents. That is how she got her entertainment for the 50 cents. She got a thrill every time she rubbed a number off to see whether it matched something else. That is how she looked at it from an entertainment standpoint.

I am certainly against any individual who is exorbitant in playing the lottery, the same as anybody exorbitant in any other activity, drinking, working, playing, whatever it may be. You do something in excess, it is no good.

Senator DURENBERGER. Mr. Bower, you will have the last word.

Mr. BOWER. This is something I run into every day, the subject comes up, and in working with the State governments and in working with the various lotteries, I hear constantly about things that would be OK in business. We cannot advertise that way, we can't do it that way, because we are a government agency. So I think they are very cognizant of the fact that they are government agencies and the fact that they are representing the people. All the lotteries that we work with when a new game starts have a brochure that explains how to play the game and what the odds of winning are, and they also provide that information in the printed advertising.

Senator DURENBERGER. Thank you, gentlemen, very much. You have been very, very helpful.

[Attachments submitted by Mr. Puncke and the prepared statements of Messrs. Bower and Trahan follow:]

I.

PRO AND CON STATEMENTS

ARE STATE LOTTERIES CONSIDERED A REGRESSIVE TAX

-1984-

Submitted by: Martin M. Puncke, September 1984

PRO AND CON STATEMENTS - ARE LOTTERIES CONSIDERED A REGRESSIVE TAX

I. ISSUE: Lotteries are highly regressive and impact mostly on the poor.

II. EXAMPLE: Dictionary of Economics and Business, 1966, p. 357

"The general sales tax is usually called regressive because it takes a larger percentage of the income of low income families in spite of the fact that the rates are proportional."

III. POSITION: Lotteries are not highly regressive.

IV. STATEMENTS AGAINST POSITION:

SOURCE: Federal Commission on the Review of the National Policy Toward Gambling, 1976

A. From page 65

"One of the major findings of the survey was that expenditures on gambling were regressive--i.e., that lower income groups spent a greater percentage of their income on gambling than did upper income groups. This was true for gambling expenditures taken as a whole as well as for most individual games. The result of this is that taxes on legal gambling appear to be quite regressive--about as regressive, in fact, as sales taxes generally."

B. From page 65

"Effective takeout rate tends to decline across income groups, and the amount spent on gambling declines as a percentage of income from 0.62 percent for those under $5,000 to 0.18 percent for those over $30,000 (tables 4-5 and 4-8). The decline in the average takeout rate for upper income group gambling reflects the fact that they bet more of their total gambling dollars on casino and sports betting, which have lower takeout rates, than on numbers and lotteries, on which the lower income groups bet more heavily."

C. From page 65

"The survey rates lotteries as medium in regressivity. Other forms of legal gambling are rated as follows:

Numbers - high
Bingo - medium
Racing-dog & horses - low
OTB - low
Sports Cards - high"

D. From page 155 and 156

"The lottery is one of the more regressive forms of gambling--that is, people in the low income categories spend proportionately more on it than those in the higher income brackets. Only numbers and sports cards are more regressive than the lottery. Bingo is about the same.

E. From page 159

"Since lotteries are basically regressive, and since the odds against the player's winning a prize are greater than in most other forms of gambling, any lottery which in fact encouraged frequent participation might prove to be inimical to the general welfare."

. SOURCE: State of Louisiana Final Joint Lottery Subcommittee, April 5, 1983

A. From page 2 - Contentions

"A lottery is harmful to people in that it is a form of a regressive tax, which is one paid by those who can least afford to pay it, and that it can lead to compulsive gambling."

B. From page 17

Comments by Ken Ward, Louisiana Moral & Civic Foundation, Inc.

"Studies and other states bear out fact that the lotteries are a regressive unfair tax on the poor."

C. From page 18

"In a research report funded by the Connecticut State Commission on Special Revenues and conducted by Mark Abrahamson, Professor of Sociology and Head of the Department of Sociology, University of Connecticut, it was pointed out in part that the Connecticut lottery primarily attracts poor, long-term unemployed and less educated participants. It generates state revenue in a regressive manner and should be discontinued. Those who play at least once per week in Connecticut were described as follows:

1) Three in five had below the state average income.

2) One in three lived on a fixed income such as pension, welfare, etc.

3) One in four experienced long-term unemployment.

4) One in four had formal education that included less than high school diplomas."

V. STATEMENTS FOR POSITION:

SOURCE: Federal Commission on the Review of the National Policy Toward Gambling, 1976

A. From page 58

- "More whites than nonwhites (62 percent vs. 52 percent).
- Low income groups show lower participation rates than higher income groups (24 percent for those with household income of less than $5,000, compared to 74 percent for those over $15,000).
- Similarly, participation rises uniformly with education, from 41 percent for those with less than a high school education to 79 percent for those who have completed college."

SOURCE: State of Louisiana Final Joint Lottery Subcommittees, April 5, 1983

A. From page 25 and 26

"In 1981 Scientific Research conducted a five-state survey where they examined the household income profile of 6,504,237 valid, in-state winners of all 140 lottery games run by the state lotteries of New York, Pennsylvania, Illinois, Michigan, and New Jersey. This comes to approximately 24 million lottery purchases which were analyzed to determine who bought the tickets. It was found by these studies that the poor participate in state lottery games at levels disproportionately less than their population."

"The study gives statistical data which one can analyze. In New Jersey a similar study done by Gallup reached the same conclusion that the great majority of players are white, and a majority of players have an annual income of $15,000 or more."

"A study conducted by Economic Research Associates, dated April 1981, entitled "The Effects of Legalized Gambling on the Citizens of the State of Connecticut" reached this conclusion: "A higher proportion of current players than the survey respondents overall has incomes over $15,000 and $25,000...". This same study noted that "there is also a trend for members of higher income groups to be more likely to have bet than members of low income groups."

B. From page 27

"The overwhelming majority of studies conducted in this country illustrate that the poor patronize the lottery in numbers proportionately less than their numerical presence in any given community."

SOURCE: "The Myth of the Poor Buying Lottery Tickets," by Dr. John R. Koza -
January 1982 Issue of Public Gaming Magazine

A. From page 40

"Regardless of how we looked at this massive (and essentially complete) data base containing the names and addresses of the many people who actually play state lottery games, the results were the same--namely, "the poor" participate in the state lottery games at levels disproportionately less than their percentage of the population."

"The assertion that the poor disproportionately buy state lottery tickets is only a myth."

Percent of Population With Income Level Shown, Table III, page 35

	% Over $56,000	% $34,000-$56,000	% $23,000-$33,999	% $18,000-$22,999	% $11,000-$17,999	% $ 6,700 $10,999	% Under $6,700
New York	5.5%	16.0%	23.0%	17.7%	11.5%	10.2%	16.1%
New Jersey	6.1%	19.3%	26.3%	17.8%	9.8%	8.5%	12.2%
Michigan	4.7%	18.8%	27.0%	18.3%	9.0%	8.3%	13.9%
Illinois	4.9%	17.2%	25.9%	17.8%	10.2%	9.0%	15.0%
Pennsylvania	3.2%	12.4%	24.2%	21.5%	12.2%	10.3%	16.2%

"We believe that the results of this analysis of the participation of lower-income individuals in lottery games should be considered definitive, since it is based on all valid, in-state, centrally-recorded winners of large prizes in all 140 different lottery games that were run by the five states involved during the entire five to ten-year period in which each state has been operating a state lottery."

"The conclusions herein are based upon the fact that 6,504,237 state prize payment checks were mailed to 6,504,237 individuals during the ten-year period in response to their presenting a valid, randomly-winning lottery ticket to the official state lottery claim center."

SOURCE: "Washington State Keeps Demographic Tabs on Instant Lottery Players" - Public Gaming Magazine, February 1983

A. From page 15 - Public Gaming Magazine

"We see many healthy signs in this preliminary analysis of the data, the report said. ...the poor and the uneducated are not buying tickets at above-average rates."

"According to the report, the greatest play in relation to their proportion of the state population came from the $25,000 to $35,000."

SOURCE: Individual Studies by Lottery States

New York Lottery - Incomes

	(1) Instant	(1) Lotto
Under $6,700	14.5%	16,8%
6700-10999	9.2	10.7
11000-17999	10.7	12.0
18000-22999	18.0	17.6
23000-33999	25.2	22.2
34000-56000	17.2	15.7
over 56000	5.3	5.1

(1) Based on Scientific Game Zip Code Study.

Note: Data for Daily Numbers and WIN-4 was not available. Games just began when survey was done.

Arizona:

400 Random Telephone Interviews in Tucson Area, July 1982.

78% of population had bought a ticket since sales started with the following participation in income categories:

Income:	-5	5-10	10-15	15-20	20-25	25-35	35-50	+50
%	70	73.1	75	72.4	84.4	90.8	77.6	87.5

In Washington State per claim form statistics the following income data exists:

-5	5-10	10-15	15-25	25-35	35-50	+50
11%	13%	16%	26%	21%	10%	3%

In Vermont Study conducted by Market Opinion Research, a nationally known firm:

Income	-10,000	10,000-20,000	+20,000
Buy Tix	15%	38%	34%

*Note: Not 100% because not all responded.

In Connecticut - Study conducted by Economic Research Association, Feb./Mar. 1981

-10,000	14.4
10-15	12.0
15-25	25.8
25	29.6

-10,000	10,000-15,000	15,000-26,000	+25,000
14.4	12.0	25.8	29.6

Delaware Survey by University of Delaware, March 1980 Completed in 3 Counties - Income Statistics of Daily Numbers Purchasers

+8,000	+10,000
96%	89%

Ohio - Study for Ohio Lottery done by Tom Davis Agency Concentration on Cuyahoga County

48.6% of tickets were purchased by people with individual incomes in excess of $20,000

Maryland - Analysis done by Towson State University in Baltimore, 1977. No significant differences in absolute or relative lottery ticket purchases were found among the census tracts of Baltimore. It appears that people from all socioeconomic levels participate in the lottery to a similar degree. The results of this analysis do not support the view that the lottery as a form of raising revenue is strongly regressive. When viewed relatively the lottery is mildly regressive.

CONCLUSIONS:

Lower income groups participate less in lotteries from their representation in the population level. Middle income groups spend more on lotteries proportionately than representation in the population level. Statistics from several states support this.

It is difficult to find a definition of the word regressivity as used by Lottery critics. In most cases it appears to mean that it costs a person with a low income a higher percentage of his dollars to buy a lottery ticket than it does for a person of a higher income.

If the definition is accepted, then there are very few things...the notable ones being the progressive income tax, sales tax, etc...for which the critical definition of regressivity does not apply. An increase in the price of a loaf of bread by 10¢ or 50¢ is a regressive price increase and so is every other product or service purchased by people with low income.

Regressivity by the puristic definition is offset by the lower participation rate of lower income groups in Lottery.

Towson University study showed that Daily Numbers in Maryland are not "highly regressive."

II.

Editorial Viewpoint

DO YOU WANT TO START A STATE LOTTERY?

By
Edward J. Powers

It is comparatively easy to operate a successful state lottery these days. In 1964, when New Hampshire was getting underway, it was a much different situation. There was no place to seek information or guidance. There was no past experience that could be researched and there were restrictive federal laws affecting taxes, drawings and the use of mails, radio and television.

Today, 17 states and the District of Columbia have legalized lotteries. The archaic federal laws restricting the operation of a state lottery have been amended by Congress. The National Association of State Lotteries, composed of lottery directors is most cooperative in helping a new state get started. The Public Gaming Research Institute is a storehouse of information and statistical data about the experiences of all the state lotteries.

A roadmap, then, of successful techniques is clearly marked for all to examine. State lotteries have been tested in the crucible of experience and have succeeded. However, a state lottery continues to be a complex, sensitive business that requires thorough planning and research. The objective of this article is to provide ideas for reflection on the process of the legalization of lotteries.

Legislative Options

The most pressing problem for groups and legislators desiring to establish a lottery is the path to legalization. What is the best way to accomplish this objective? There are two methods that have been used successfully: (1) legislative; and (2) initiative.

The legislative route is easiest if the political leadership is favorable. For example, there is little chance for a state lottery in Florida at this time through the legislature because of the opposition from the political leadership and the pari-mutuel industry. However, as the state revenue crunch worsens, there may be a softening of attitudes. The instant success experienced by Arizona and the District of Columbia should be an incentive for other states to adopt a lottery.

The only chance, in the forseeable future, for states like Florida to legalize a lottery is to opt for an initiative. This would require approximately 30,000 signatures of registered voters to get the question on the ballot. This is a monumental task and requires a dedicated group of citizens who are well organized and who can raise the necessary funds to pay for the promotion, clerical costs and mailings.

Recently an experienced group from Hollywood, Florida worked hard to obtain the required number of signatures to qualify for the election of November 1982, but failed to meet the deadline. On the other hand, the Arizona state lottery was approved by the voters after a group of citizens was able to qualify the question on the ballot, via an initiative, by obtaining over 30,000 signatures.

It should be remembered that support from banks, hotels, restaurants, supermarkets, liquor stores and advertising agencies should be sought because they will be paid millions in commissions for services rendered to the lottery.

Lottery Checklist

There are several basic points that should be carefully considered in the plans to establish a state lottery:

1. A vote of the people is desirable. A state lottery is still controversial and it is important that the people are afforded a chance to vote on the question. A favorable vote is the quickest way to silence the opposition.

2. The director should be a professional person with lottery experience. The lottery should be as free from political interference as possible. The director should have the authority to build the staff with people of merit and qualifications. All candidates should be carefully screened and their experience and background verified.

3. The question of whether or not there should be a commission is debatable. Michigan has been very successful with one commissioner who functions as the director. He answers only to the governor and has the authority to make all the essential decisions. This is

Editorial Viewpoint

probably the most efficient system because it cuts through the political red tape, permits quick decision-making and eliminates bickering, needless delays and personality clashes that may develop within a commission of several members.

On the other hand, there are some advantages to having a commission. A commission made up of three to five members can share with the director the responsibility for sensitive problems, can be a sounding board for major decisions and can work effectively with the legislature. Many commissioners have previously served in the legislature and this experience is a valuable asset.

4. Full public accountability must be required. Periodic reports of revenue and expenses must be issued to the governor and the legislature. An annual report should be published for the public and the press to review. Some lotteries require that an outside accounting agency conduct periodic audits.

5. The lottery agency should be treated like a business as much as possible. This is the only way to maximize revenues. It must have the flexibility to launch new programs and to change marketing strategy. It should not be in a budget straitjacket that prevents it from making personnel or policy changes.

6. It is recommended that the lottery be a separate agency and not under the control of any other state agency. It should have its own identity and be responsible for its decisions. This is best from a public relations as well as from an efficiency viewpoint. It should have the authority to issue and present prize checks and news releases. It should be able to employ personnel and to enter into contracts, within established state procedures, and to issue its own bid specifications. However, it should be noted that a number of state lotteries are currently functioning within another state agency.

7. Careful consideration should be given to whether the lottery agency should be permitted to enter into no-bid contracts or to accept a contract from a vendor who is not the low bidder. Security requirements are so essential on tickets and drawing equipment, for example, that it is possible that the low bidder would not provide the state with the best product. The lottery should work closely with the state purchasing department in these matters.

8. Who would be the beneficiary of the lottery revenues? Many states channel the net revenues into the general fund while others earmark them for public education, for cities and towns, for aid to senior citizens or for parks and recreation. It seems preferable from the lottery viewpoint to earmark the funds for a special purpose. By doing this, the benefits derived can be more readily measured and recognized. For example, it is very impressive to read in the annual report of the Pennsylvania Lottery of the $267 million distributed as tax rebates and free transportation for senior citizens, with appropriate photographs.

Another benefit of earmarking is the creation of a support group for the lottery. The legislation in Colorado established the beneficiary as parks and recreation. This immediately provided an incentive for these state employees, their families and their vendors to work for public approval. The group was very effective in obtaining a favorable vote from the people.

9. Security is paramount in every aspect of the lottery. The draft legislation should provide the framework for the internal controls that are necessary to deter and prevent subversion both from within and without. Computer technology permits controls today that were unavailable in the past. Most security problems have arisen from employees and this emphasizes the need for close pre-employment screening. There must be cross-checks and frequent unannounced inspections to eliminate temptation.

10. It must be remembered that a state lottery will return close to 40 percent of total gross revenues to the state, after paying all the prizes and expenses. The lottery agency is completely self-supporting. Its initial start-up costs will be paid back to the state within a matter of months. The draft legislation should not specify a percentage of prizes to be paid, the amount to be spent on advertising, the percentage allowed for expenses or the minimum amount to be returned in net revenue. These restrictions can seriously impede decision-making. It is best to charge the administrators of the lottery with the responsibility of raising maximum revenue from the program.

There is room for discussion on all these points. There is no one single road to a successful lottery. The essential factor is to recognize the problems and then to tailor the solutions to fit the special circumstances that exist in each state. PG

Edward J. Powers has served as the executive director of the New Hampshire Sweepstakes Commission, which started the first lottery in the U.S. in the 20th century. Mr. Powers is also a founder of the National Association of State Lotteries, and served as president of the Association from 1974 to 1976. He is currently a consultant to the gaming industry.

III.

Editorial Viewpoint

STATE LOTTERY LAWS

There's Room For Improvement

Most state lottery laws were drafted when the idea of a state lottery was a novel concept and little or no practical experience was available. As a result, many "concerns" were addressed which turned out to be illusions based on fear rather than real causes for concern.

While this approach may have been justified 10 or more years ago, it should have long since been abandoned and enabling statutes should now be drafted or, much more difficult to do, amended in light of the available record of lottery experience.

If at all possible a state lottery should be established in the form of an independent Authority rather than as a regular state agency. This is the form of entity usually preferred when government involves itself in an activity which is not an essential governmental service and partakes of the nature of a commercial enterprise. It seems senseless to deprive state lotteries of this flexible form of entity and force dynamic, consumer-oriented, marketing organizations into the rigid framework of a regular state agency. An Authority has an independent source of acquisition of capital funds in the power to issue bonds. Bonds can be retired from revenue and the interest rate is generally less than built into lease-purchase acquisitions.

As the lottery industry becomes more technical and lottery systems become more sophisticated and, therefore, more expensive, significant savings could be achieved. An Authority would have more latitude in purchasing and consequently much of the litigation which currently attends most contract awards could be avoided.

State purchasing statutes were not written with lotteries in mind, and so are not suited to the peculiar requirements of lottery management. An Authority is better able to compete for the highly skilled type of employee required for lottery operations. This is particularly true as the industry becomes more wedded to computer systems and the employment and retention of computer professionals becomes a major concern.

If an Authority form of entity is not achievable, then, a separate commission consisting of members from both the public and private sector is preferable to constitution as an agency of an established branch of government. In this way, private input becomes available and some form of continuity apart from the elective process is obtained.

The operation of a lottery requires special skills and management techniques and it is counterproductive to have a change in lottery management every time the electorate decrees a change in the administration of the state. In order to minimize the effect of the political process, the terms of a majority of the commission members should not be co-terminous with the appointing officer. Terms of a fixed number of years staggered to provide for an orderly transition of membership should be provided for in the enabling statute.

Details as to lottery operation should not be specified in the lottery. These quite often result only in needless restraints upon the efficient operation of a lottery enterprise. In particular, percentage allocations in lottery revenues should be avoided in enabling legislation.

Net revenues are really a function of gross revenues. Percentage limitations that produce disincentives to sales can, in the long run, only serve to reduce net revenues. Percentages for prizes and operational expenses should be set by the market and not by legislative fiat. State lotteries have proven they are capable of raising substantial net revenue. There is no need to set minimum acceptable levels of net revenue.

The public has shown it will not support lottery products unless there is an adequate prize pool to maintain player interest. There is, therefore, no need to mandate minimum prize percentages. The measure of operating expenses should be return on investment as it is in any business enterprise. These artificial percentage limitations meet no demonstrable need and often hinder the design of games at optimum levels.

Similarly, it is counterproductive to mandate the types of lottery games to be operated. If games are restricted to true lotteries, there is sufficient limitation to ensure that a state lottery will not attempt to extend its franchise beyond the now accepted framework of a lottery. In this way the public is protected from over-zealous lottery managers and yet no counterproductive restrictions are imposed.

Experience has shown some areas that should be addressed in enabling legislation that were not, or if addressed were not adequately detailed. For instance, disputed claims should be clearly appealable only through state administrative procedures and should not be treated as civil disputes where contract law applies. Clear authority to own, operate and maintain separate data processing systems should be given lest a lottery be

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required to share time thereby compromising the lottery's security. Criminal offender record information should be available for use in licensing decisions. Failure of sales agents to promptly pay proceeds of lottery sales after reasonable demand should be a criminal offense. Trade secrets of vendors should be protected from disclosure under Freedom of Information Statutes.

In summary, legislation should be drafted using the store of lottery experience developed in the past 10 years and not simply be modeled on existing lottery laws adopted when this store of experience was not available. The maximum of flexibility should be obtained in the original enactment as once carved in stone laws are hard, if not impossible, to change. The operation of the lottery should be insulated, as far as is possible, from the operation of the political process. The particular areas where governmental restraints are counterproductive should be identified and specifically modified or waived as to lottery operations.

Legislators must be educated to the fact that lotteries are no longer a novel and dangerous idea but have become an established and accepted source of significant public revenue. To require them to operate under laws enacted in the horse and buggy days of the industry serves no legitimate interest.

GB LOTTERY REPORT

State of the lotteries: A bullish forecast for 1984-85

By Terri La Fleur

If lotteries were traded on the New York Stock Exchange, fickle investors would surely be snapping up the blue chip stock in 1984 and its industrial average would soar.

Michael J. Jones, superintendent of the Illinois State Lottery, most aptly characterizes the reason for this bullish forecast. When queried on what's ahead for the Illinois agency, Jones glibly replied: "Money, money, money, money, money, money..."

The potential is indeed staggering. Between fiscal 1983 and calendar 1983, gross sales jumped from $5.2 billion to $7 billion-plus, and $10 billion appears tantalizingly near — particularly if California joins the ranks in 1985 (See Lotteries in the News, page 22). Another significant factor will be the debuts of the video lottery experiments in Illinois and Quebec, with their multi-billion dollar implications for the industry as a whole. All in all, current VLT revenue projections for the 18 U.S. and four Canadian lotteries run as high as $9.8 billion, according to Norman LaMarre, vice president of Bally Manufacturing Corp.'s Scientific Games division.

Some upsets also may be brewing, with the number of lotteries vying for center stage growing. In October 1983, the Pennsylvania Lottery pole-vaulted over the $1 billion sales hurdle and into the limelight, but by all indications the New York, New Jersey and Illinois lotteries are readying for the leap in fiscal 1985. The megabuck lotto prizes in Massachusetts, Ohio, Connecticut and Maryland also will be galvanizing sales, with increases of as much as 50 percent over the previous year anticipated. A similar turnaround from the lotteries' recent lackluster track record in Michigan and Arizona is virtually assured by year-end 1985.

Among the lotteries with a limited population base of 1 million or less, the Washington, D.C. Lottery has taken the lead, surging ahead with per capita sales of $90.10 in fiscal 1983, the third highest level among the 18 state lotteries. Despite the volatility of its public image, which has suffered from continuing FBI investigations, city audits and mayoral criticism, the lottery has successfully engineered a fast-track approach to game start-ups, culminating with lotto's arrival on April 30th. The New Hampshire and Maine lotteries also hope to cash in on lotto fever in 1985, although the tri-state lotto venture is now more appropriately flagged bi-state, as Gov. Richard Snelling has given the "thumbs-down" signal concerning Vermont's participation.

What's ahead in 1984-85?

Individual market forecasts follow for each of the 18 U.S. lotteries and four provincial lotteries in Canada:

Arizona: In March 1984, following 10 drawn-out months in court, the Arizona Lottery successfully negotiated a settlement concerning the state's nullification of its $13 million contract award to GTECH Corp. A new request for proposal (RFP) for the 6/36 lotto game was issued in April, with vendors' bids due by May 1. Under the terms of the settlement, the lottery will submit all vendor proposals to SRI International for an independent evaluation. The new award will be announced in late June.

Charles E. Buri

Cluny Macpherson

Says Lottery Director Charles E. Buri, "Our initial plans call for 500 terminals, adding at a rate of 100 per month, until we reach our goal of 1,500 units." With its product mix temporarily limited to two games — there are no immediate plans for VLTs or sports wagering — the main concern is achieving a synergy between the instant and lotto games. "Marketing-wise, there is a definite need for the two games to complement each other. We don't want to see our instant sales cannibalized by lotto," Buri said.

Atlantic Loto: Sales jumped 38.7 percent in fiscal 1983-84, from $78.6 million to $109 million, a record take for the youngest of the Canadian provincial lotteries. Profits were notably enhanced by the addition of instant games in November, with three games successfully marketed during a seven-month period and total sales approaching $25 million. Says general manager Cluny Macpherson: "Marketing instant games was hardly a matter of choice for us. Demand in the marketplace necessitated it."

The lottery also has witnessed a major turnaround in Lotto 6/49 sales, Canada's interprovincial on-line offering. In fiscal 1984, Atlantic's 6/49 sales increased 348.7 percent, from $4.46 million to approximately $20 million. Next on the agenda is a mysterious new game, which, Macpherson reports, the lottery is "in the throes of researching and developing, possibly as a replacement for one of our current games." The new game will be implemented in the "not too distant future," he said. Macpherson also indicated the new game is not VLTs, and that "as far as video lotteries are

Owen Hickey

J. Blaine Lewis, Jr.

Ralph F. Batch

Michael J. Jones

Jean-Marc Lafaille

concerned. I don't see such devices in Atlantic Canada for a long time to come."

Colorado: By failing to act on the lottery's request for funding, the Colorado Legislature indefinitely postponed the lottery's plans to expand to an on-line lotto game by year-end 1984. But Colorado Lottery Director Owen Hickey is not devastated, just disappointed. Says Hickey: "We'll be busy switching to a date-base management system in fiscal 1984 and continuing to research other games for expansion."

Although the five-member lottery commission has full authority to select games, and thus could bypass lotto in the interest of experimenting with VLTs or sports wagering in 1985, the funding would have to be approved by the state legislature. The lottery's enthusiasm for new fourth-generation lottery products is tempered also by the unknown consumer-acceptance factor. Says Hickey: "I think we'll see a lot of industry experimentation in 1985, but I don't know what the public's reaction will be after the first spectacular participation. I think the test of whether the public wants a video lottery as a staple product will come in 1985-86."

Connecticut: The Connecticut Lottery made headlines in March, with its 5-month-old lotto game suddenly "on the roll." After seven weeks, the jackpot prize peaked at $7.8 million and monthly sales increased nearly threefold. In mid-April, the lottery repeated its success story, with a $4.2 million prize. "I think we're the smallest state playing big-league lotto today," said Connecticut Lottery Director J. Blaine Lewis Jr. "By big-league, I mean routine million dollar winners and occasional multi-million dollar winners. For a state with a 3.1 million population, that's good."

The lottery does not anticipate expanding its product mix in fiscal 1985, as state Attorney General Joe Lieberman has ruled against video lotteries. But Lewis is optimistic about the potential for fourth-generation lottery products: "I think sports betting and video lotteries will come, but like everything else, it'll be slow and somebody has to go first. I think there may be more difficulties associated with sports betting because of potential legal disputes with organized professional sports."

Delaware: Boasting a population of 600,000 and an extensively developed entourage of lottery games, the Delaware Lottery is, in the words of its director, Ralph F. Batch, "on hold with new games, although we will be actively observing the proposed sports betting and VLT experiment by other lotteries." Hardly the skeptic about industry innovation, however. Batch frankly admits, "I think there's room for both of them in the future."

Delaware also is monitoring the New England lotteries' efforts to arrange a tri-state lotto game, according to Batch, because "we would like to have a go at a multi-state game." In February, the lottery moved to twice-weekly drawings for its 6/30 lotto game; without a large base to draw upon, however, prizes are generally limited to the $250,000 range.

Illinois: Three hundred VLTs go on-line August 1 in the first major U.S. test. According to Lottery Superintendent Michael J. Jones, "We're going to test a variety of designs, along with several different prize structures. If it works, we'll incorporate all the information we've gathered into an invitation to bid." Chicago-based Bally Manufacturing Corp. is providing all the machines at no cost to the state. Plans to include VLTs in the product mix in fiscal 1985 are indefinite, "unless the test proves very successful," Jones said.

Also undergoing changes at Illinois Lottery headquarters is the 6/40 lotto game, which switches to a 6/44 design, minus an alternate grand prize, in May 1984. "We're going to be the first state to not go to multiple draws on lotto," Jones said. "We believe the key to lotto's success is rollovers, so we're trying to evolve a mathematical model of what the optimum number of unplayed combinations are to ensure occasional rollover." The lottery has also switched its policy in regard to lotto prize payoffs. All grand prize winners whose share is less than $1 million will be awarded the entire cash value.

Loto-Quebec: As soon as government approval is gained in Quebec, the lottery plans to move forward with its much-ballyhooed video lottery experiment. Says Loto President Jean-Marc Lafaille: "In the beginning, we're going to work with two to three vendors for a three- to six-month trial period. After studying the results of various types of machines, we'll be in a better situation to consider public tendering for purchasing equipment."

Loto-Quebec offers the most extensively developed product mix in North America, with a total of eight games.

During 1981 and 1982 the lottery also experimented with two forms of sports pool betting, but both were short-lived. Hockey-Select, introduced in October 1982, involved forecasting the results of 13 professional games. Total "seasonal" sales amounted to $1.6 million. "The only reason why we're not interested in pursuing sports pool betting is that we tried it last year and it didn't work," Lafaille said. "If the federal government's Canadian Sports Pool Corp. is successful, we will reintroduce [it]. But we tried such a game in the past and it didn't work."

Maine: After Governor Joseph E. Brennan scribbled his official "John Hancock" on the tri-state lotto bill on April 13, the Maine Lottery began to put the wheels in motion for the start-up of a multi-state lotto scheme by November. Although the three-state venture will be affected by the loss of the Vermont Lottery's participation, Maine Lottery Director Richard "Spike" Carey said "we put an amendment in our bill that if two states with a total population in excess of 2 million pass the necessary legislation, we could go forward without the third partner."

Meetings are now under way with Maine and New Hampshire's on-line vendor, AmTote, although the lotteries may choose to go out to bid for the installation of the new game. AmTote's contract with the two New England lotteries runs through the summer of 1985. A multi-state commission, consisting of each participating lotteries' director plus one elected lottery commissioner, will be responsible for determining the game design. Sketchy plans call for a design similar to the Massachusetts Lottery's Megabucks game, with odds favorably slanted toward the players so initially the game can be won easily, Carey said.

Maryland: On-line products currently contribute upwards of 99 percent of the Maryland Lottery's total sales, and its newest addition, 6/40 lotto, should help the lottery break $500 million in fiscal 1984. The lottery anticipates Pick-3 and Pick-4 sales will increase approximately 3 to 5 percent in fiscal 1985, but no projections were available for lotto. Says Lottery Director Martin M. Puncke: "We've come up from an initial start-up week of $535,000 for lotto in October to a weekly average of $1.8 million in April. Now as to whether it's going to grow fast or have a general growth, I guess it all depends on the size of the prizes."

Massachusetts: The sudden emergence of the 6/36 Megabucks game as the foremost revenue producer for the lottery has "shortchanged our long-range goals and left us slightly stunned," said Executive Director James Hosker. "We've seen phenomenal growth during the last few months. Our instant games are up 50 percent, our numbers game is up 30 percent, and lotto jumped 400 percent over one month's time. We're anticipating sales as high as $600 million in this fiscal year."

Much of that success clearly comes from rampant New England lotto fever. In March, the Megabucks' jackpot topped $18 million. Correspondingly, monthly lotto sales climbed to $35.8 million, up from $8.5 million in February. To accommodate increased player popularity, the lottery plans to switch to a new 6/40 game design, as well as expand to two drawings per week. Also to be revamped is the weekly game, according to Hosker, "because it hasn't been changed for over five years. We're like the Ivory Snow people. We don't want to change it too much, but it's nice to slap a 'new and improved' label on the product."

Michigan: Although sales leveled off in fiscal 1983 to $555 million, the June 1984 start-up of a 6/40 lotto game and the near completion of a new 2,800-terminal system by Dallas-based Syntech International should lead to a major turnaround in fiscal 1985. Next on the agenda is a revamped instant ticket delivery system by year-end 1984. Fourth generation lottery products are also a possibility. Says Lottery Director Michael J. Carr: "We'll be watching with interest the experience of our neighbor, Illinois, and their video lottery test. After they complete that experiment, and depending on how it goes, we'll certainly be checking it out. Of course there are no definite commitments, but..."

New Hampshire: Although the potential still exists for a adverse ruling by state Attorney General Gregory Smith, the Sweepstakes Commission is fully committed to a November 1984 start-up for the much-heralded bi-state lotto game. Said Interim Director James Fawcett: "Yes, we are going forward. In fact, we're going forward even if I have to do it alone."

Although past estimates called for weekly jackpots amounting to $250,000, Fawcett believes that such figures at best illustrate the size of New Hampshire's

Richard J. Carey

Martin M. Puncke

James Hosker

Michael J. Carr

James Fawcett

Hazel Frank Gluck

John D. Quinn

Thomas V. Chema

D. Norman Morris

Lynn R. Nelson

pot. He also envisions the two states' 350-terminal network being expanded to a 800-unit system. The commission "may consider running a side-by-side system because New Hampshire only has 175 daily numbers terminals on-line," Fawcett said. "I'd like to have 450 units on-line and I suspect there may be interested parties, particularly since AmTote's contract expires in September 1985. Since [Vermont Governor Richard] Snelling's ruling, I've also decided to place 50 more terminals on that state's border."

New Jersey: Despite last year's aborted VLT experiment, the New Jersey State Lottery is fast approaching the $1 billion sales plateau, with estimated sales topping $800 million in fiscal 1984. According to Lottery Director Hazel Frank Gluck: "We could have pushed hard or switched to twice-weekly drawings with lotto, but we have a different philosophy. It isn't a question of if we can reach a billion dollars, but staying here. I believe that if the lotteries don't get a new product, sales will...level off."

On the lottery's fiscal 1985 agenda is conversion to a 3,500-terminal system manufactured by Rhode Island-based GTECH Corp., a system Gluck described as "the largest on-line system in the world." The lottery is also considering changing its 6/36 lotto design, but there are no plans to increase the number of drawings.

New York: Temporarily shut out from the lucrative revenue possibilities of VLTs in 1982 and sports wagering in 1984, New York State's lottery must content itself with "further fine-tuning of games," Director John D. Quinn said. "We had been planning to be quite active with sports betting, but that is not going to take place this year." Despite this setback, the lottery chalked up sales of $888 million in fiscal 1984, and a billion dollar year is now a stone's throw away.

Next on the agenda is a new player-activated terminal experiment to debut in July or August. Manufactured by Syntech International, the 500 devices leave agents free because players independently can carry out betting transactions for the lottery's lotto, numbers and instant games. The machines feature a "touch-screen technology" that conceivably could lead New Yorkers into a video-oriented style of play. Quinn also reported the lottery may expand the numbers base for its 6/40 lotto game in the near future.

Ohio: After 10 months in operation, Ohio's 6/40 lotto sales are exceeding $4 million per week, resulting in the lottery's record-breaking 50 percent growth rate. Total fiscal 1984 sales should top $550 million. In May, the lottery released a request for proposal (RFP) for a new on-line system, with the award scheduled for July. Said Director Thomas V. Chema: "The winning bidder will be required to be fully operational by August 15, 1985. We're planning the immediate implementation of 2,500-terminal network, but we want the system to be capable of handling 5,000." The lottery also plans to go out to bid for player-activated terminals in fiscal 1985.

Although there are no new games currently on the drawing board, the lottery is watching developments in the field of sports betting. "We don't want to push sports betting, but we do want to be in the position to know the facts and be able to give the Legislature a recommendation, if they should become interested in the subject," Chema said, "We plan to carefully monitor other states' efforts."

Ontario: Through an extensively developed product mix, which includes three interprovincial lottery games as well as 6/39 lotto, instant and weekly games, the Ontario Lottery chalked up a $50 million sales hike in the fiscal year ending March 30, 1984, with unaudited sales totaling $550 million. No plans currently exist for new games in fiscal 1985, although the lottery is in the process of adding more terminals and updating the system. As for VLTs, Wendy Horne, public relations manager, notes: "There are no plans to recommend such machines to our minister for approval."

Pennsylvania: Gross receipts for fiscal 1984: $1.2 billion. Population: 11.7 million. Implications: Staggering. Offering one of the most highly developed and mature product mixes in the country, Pennsylvania is clearly a paragon of lotteries. After the onset of its 6/40 lotto game in June 1982, sales jumped by $318 million in fiscal 1983 and a potentially greater increase is projected for fiscal 1984. The question, of course, is what's next? "Refinement," said Director Lynn R. Nelson. "We of course will be monitoring the video machines experiments in Illinois and Quebec and New York's test with player-activated terminals but there are no plans at present."

As for any new twists to present games, Nelson added: "We've certainly looking at ways to enhance our lotto game as our sales go up, as they have been. Increased frequency of drawings

Major Peter J. O'Connell

George A. Dacey

Robert A. Boyd

Douglass W. Gordon

Guy Simonis

is certainly one consideration; we're also looking at expanding the base."

Rhode Island: Gross ticket sales should exceed $50 million in fiscal 1984, up from $43.7 million in the prior year. By July, the lottery anticipates switching its 4/47 jackpot game to a 5/38 numbers scheme, with odds increasing from 1:178,000 to 1:501,000. The frequency also will be accelerated to three drawings per week. According to Lottery Director Major Peter O'Connell: "The changes to our lotto game are solely dictated by success. We're simply doing too much business."

Vermont: Despite gaining a majority of votes in the Vermont House and Senate for the proposed tri-state lotto game, Gov. Richard Snelling elected to veto the legislation on April 20. As to the possibility of resubmitting the plan in the 1985 legislative session, Lottery Director George Dacey noted, "I don't think there'll be a next year. I'm convinced that the bill is dead, lotto is dead, and that the chances of operating lotto in the state of Vermont do not exist."

With approximately 600,000 people in the state, and a product mix limited to daily numbers and instant products, the forecast is not bright. Said Dacey: "I think there's going to be a decline in business, with the people in surrounding states starting to pick off a lot of our business. I believe this decision will have a seriously adverse effect on us."

Washington: As the first western state to experiment with offering a 3-digit numbers game, Lottery Director Robert A. Boyd knew the odds weren't exactly stacked in his favor. And although Triple Choice sales have remained within projections through the first three months (start-up was January 1984), "it has been slow," Boyd said. Too much emphasis on "the digit game is coming" and too little "how-to-play" information may be the culprit, according to Boyd, so a newly revamped advertising program will be launched in the spring.

By mid-July, the lottery plans to add lotto, which "should create lot of excitement in the state," Boyd noted. Rapid acceptance is expected because players are familiar with Canadian lotto games, as well as Las Vegas-style keno. Beyond lotto, there are no plans for any further game expansion, because "the Washington State Lottery Commission has adopted rules preventing us from using any coin-operated devices, such as video lottery devices or dispensers," Boyd said.

Washington, D.C.: Like its namesake in the west, the Washington, D.C. Lottery has rapidly added games, but with a unique twist. Its newest product, Lucky Lotto, premiered on April 30th. Said Lottery Director Douglass Gordon: "Since the appeal of lotto is the 'big win,' we decided to add the percentage of money that would ordinarily go into second- and third-place prizes to our jackpot. As far as we know, we're the first lottery to try such a design." The odds of winning the 5/40 game are 1:658.008.

Since its start-up in August 1983, the lottery's 3-digit numbers game has developed quite a following, with monthly sales exceeding $7 million in March. The 500-terminal system should be completely installed by mid-summer. Although instant sales have noticeably bottomed-out during the second quarter of fiscal 1984, the lottery has negotiated a new contract with Scientific Games that begins in June. Said Gordon: "I think our new tickets will prove very unique, with a catalyzing prize structure."

Western Canada: Lotto West, a uniquely designed 6/56 lotto game serving four Western Canadian provinces, debuts in June. According to General Manager Guy Simonis: "The player is asked to predict which six numbers out of a field of 56 will come up, but we actually draw eight numbers. It's the only lotto game where you can be wrong twice and still win the jackpot." The lottery's 2,000-terminal system is scheduled for completion by August 1984.

The Western Canada Lottery also envisions testing video lottery machines in an exhibition setting similar to state fairs, although such tests won't get under way in fiscal 1985. "We like the idea of experimenting in a controlled, temporary setting like an exhibition, which usually runs only a few months," noted Simonis. "We've approached some governments with this idea, but I must emphasize we're only toying with the idea." GB

V.

ARTICLE PREPARED BY
MARTIN M. PUNCKE
TO APPEAR IN THE DECEMBER 1984 ISSUE
INTERNATIONAL ASSOCIATION OF CHIEFS OF POLICE MAGAZINE (IACP)

Martin M. (Mat) Puncke, Director, Maryland State Lottery Agency since 1979; President, North-American Association of State Lotteries; Retired Major, Maryland State Police after 29 years service in the field, Director of Training, Administrative Officer and Assistant Field Force Commander; 6 years as Acting Director, Systems Operations Programs, National Highway Traffic Safety Administration, U.S. Department of Transportation; and businessman for 15 years. Long course grad, Northwestern University Traffic Institute; Harvard Associates in Police Science; instructor at NUTI, Southern Police Institute, University of Maryland and FBI Academy. Life member IACP.

Additional information is available through the author c/o the Maryland State Lottery Agency, 711 West 40th Street, Suite 350, The Rotunda, Baltimore, Maryland 21211.

LEGALIZED LOTTERIES - POLICE ENFORCEMENT

The Commission on The Review of the National Policy Toward Gambling in its final report to the President of the United States and to the Congress concluded that gambling is inevitable. "No matter what is said or done by advocates or opponents of gambling in all its various forms, it is an activity that is practiced, or tacitly endorsed, by a substantial majority of Americans. This does not mean that gambling is a simple problem which lends itself to simple solutions. Far from it. Gambling is an issue so fraught with ingrained moral and philosophical dichotomies and unresolved social questions that no disposition of the subject can ever come close to being universally accepted."[1]

Since 1979, I have directed the activities of the Maryland State Lottery. During these past five years, we have received many inquiries from interested parties concerning the impact of legalized wagering. Naturally, law enforcement officials number amongst those most concerned. Those concerns include fear that legislation permitting legalized wagering, and in particular, state-operated lotteries, might trigger an immediate or future increase in criminal activity. This fear comes from the belief by some that organized crime might view a legalized lottery as an opportunity for immediate or future infiltration. Will there be a rapid increase in compulsive gambling with all of its accompanying social, personal and family problems? All of these issues are valid concerns and should be considered by any police administrator when wagering legislation is being discussed or proposed.

The police executive will be asked to take a position. I would like to take the opportunity to present my views on the subject from a practical experience standpoint since I have had 29 years experience with the Maryland State Police and five years experience as Director of the Maryland State Lottery.

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[1] "Gambling in America, Final Report of the Commission on the Review of the National Policy Toward Gambling", 1976.

The Maryland Lottery was authorized by our legislature in 1973. Maryland, like most lotteries that began in the 1970's, started with a preprinted, computerized ticket having a weekly drawing. This type of product met with only limited acceptance, and with few exceptions, has been discontinued by most state lotteries. The automation of lottery games through computer and on-line computer terminals is what propelled lotteries to the point where they are currently operating in 18 states and are forecast to produce $6 billion dollars plus in sales in the coming year. These "on-line games" are what enabled lotteries to, in effect, copy the illegal street or policy games and operate them in a highly efficient, secure, and data-structured way.

Typically, they are three-digit or four-digit games with drawings daily rather than weekly and with fixed odd payouts, which in most states closely approximates the way the illegal games have operated for years. Rather than use horse race results or Wall Street Journal stock averages, state operated lotteries conduct public drawings, usually televised live, with members of the public assisting in the selection of the winning numbers.

Although on-line games represent about 75 percent of the current lottery sales volume, another 25 percent is generated through the vehicle of instant lottery tickets. Instant games are those wherein winning tickets are intermingled with losing tickets, the identities of which are concealed by a scratch-off latex covering. A player purchases a ticket and merely rubs it with a coin, key or other sharp object to reveal whether it is a winning or losing ticket.

The North-American Association of State Lotteries consists of

24 legal lottery operations; the District of Columbia, 17 states (Arizona, Colorado, Connecticut, Delaware, Illinois, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont and Washington State), Puerto Rico, the Virgin Islands and 4 lotteries in Canada (Atlantic, Quebec, Ontario and Western Canada).

The use of the revenue generated by lotteries varies from state to state, depending on the state's individual needs and legislative precedent. Many direct the revenue to the state's general fund, where the administration or the legislature designates its use through the budgetary process. New York's revenue is dedicated to education; Pennsylvania to senior citizen programs; Colorado to parks, recreation, open space projects and capital improvements; and one new state is considering financing for economic development.

The National Gambling Commission found that 77% of the population in states where lotteries were legalized were favorable to the Lottery[2], so it is not surprising that many other states are also considering lottery legislation. The driving force is usually the need for additional funding for programs which are essential to the operation of the state as well as rising operational costs of programs already in existence. I will not attempt to list each state since they are all in various stages of legislative consideration.

There is no indication that crime increases due to a legalized lottery. The greed for money is the basis for most crime, along with conflict between criminals who are involved in a gambling activity. The legalized lottery does not provide this opportunity because the funds wagered are recorded immediately through the on-line data system. The bet is made and recorded, and a ticket is issued containing a validation number unique to that particular individual wager. The customer is protected by a valid ticket, the agent account is charged with the amount of the ticket immediately, and a permanent hard copy data record is created, guaranteeing the State the amount collected. All of this occurs within 4 seconds from the time a wager is placed. The potential of what is commonly referred to as "skimming" does not exist. The selling of instant tickets is also protected by similar guides, validation numbers and audit trails. (See chart A & B)

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[2] "Gambling in America, Final Report of the Commission on the Review of the National Policy Toward Gambling", 1976.

Another great concern is the potential of additional hold-up exposure to businesses which sell lottery tickets. There is no question that some businesses selling tickets are held up, but there is no evidence that shows these businesses are held up to a greater percentage than similar types of businesses who do not handle or sell lottery tickets. There is the increased possibility of muggings after a winner collects in a high crime area, but again, this potential is no greater than persons leaving a location that cashes checks or money orders.

Another concern is the possibility of infiltration of organized criminal elements. Organized crime thrives on circumstances where large sums of money are received, handled, manipulated, and later a portion of that money is recorded and accounted for, indicating a legal business transaction. The period of time, 4 seconds on the average, that money is being recorded in the computer, leaving a complete audit trail, and the fact that the amount of the transaction is 50¢ to $5.00, makes the legal lottery a poor business venture for organized crime. In addition to these basic facts, all lotteries check the criminal background of all agents, vendors and suppliers, making every effort to screen out anyone who has a questionable background. There certainly is a possibility that some undesirables will become involved, but the lack of interest on the part of organized crime greatly reduces the potential of this problem. During the years I have been Director of the Maryland Lottery, and in my association with the other Directors of the legalized lotteries in the U.S. and Canada, there has not been a single incident, charge, or an insinuation of a charge, that organized crime had, or attempted to obtain, a foothold in any legal lottery state.

It has been charged that legalized lotteries increase the number of compulsive gamblers in those states which have instituted a legal game. This unfounded allegation is constantly made, but let us consider the type of individual who is a compulsive gambler. The Readers Digest Great Encyclopedic Dictionary defines "compulsive" as an irresistible impulse or tendency to perform an act. A compulsive gambler must have a fast or immediate result from his act with little regard to the result of winning or losing. A lottery is too passive a game. Dr. Robert Custer, medical adviser to the National Council on Compulsive Gambling, and one of the nation's foremost experts on the subject, says that no reliable studies have been done linking lotteries to compulsive gambling and indicates that more definitive research can be done as the lotteries become more ingrained in the American culture. Custer believes that a number of variables must come together for compulsive gambling to manifest itself. To become a compulsive gambler, a person must be psychologically so disposed to have the opportunity to wager, and win, large amounts with some frequency.[3]

The action provided by the lottery is not fast enough for the compulsive gambler. A daily ticket is purchased during the day, but the bettor must wait until evening before the number is drawn and he knows the result. In the weekly game, or in the case of the lotto game, the drawing is done once, or in some states, twice a week. The compulsive gambler does not have the patience to wait. The states of New Jersey and Colorado are both making extensive studies concerning the physical and psychological make-up of persons affected by the compulsive gambling sickness and to the extent that the sickness is a detriment to society, as well as to what degree a lottery affects this compulsion.

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[3] "Dispelling the Myths In the Gaming Industry-Lotteries", Public Gaming Magazine, Vol. 11, No. 12 (Dec. 1983), 41. Interview with Dr. Robert Custer, medical advisor to the National council on Cumpulsive Gambling.

Any state that is considering the legalization of a lottery, of course, should take a precautionary and sensible approach to lottery security, drawing procedures and record keeping as well as the quality of vendors, particularly those offering data processing services and instant tickets. Should these proper precautions be in place, there is little reason for law enforcement administrators to have concerns for an increase in criminal activities. As a matter of fact, in order for a lottery to become successful and grow, the operation must be highly visible and must at all times maintain a sensitivity to its integrity and security. Should the public at any time have any cause to question a lottery's integrity, then inevitably sales would plummet, and the lack of public confidence would ultimately cause the lottery to go out of business.

The report issued by the Gambling Commission in 1976 states, "It is not a question of whether people will gamble, but the question is who will they gamble with - the legalized lottery created and supervised by the state, or the illegal game."[4]

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[4] "Gambling In America, Final Report of the Commission on the Review of the National Policy Toward Gambling", 1976.

CHART "A"

On-Line Sales Flow Chart

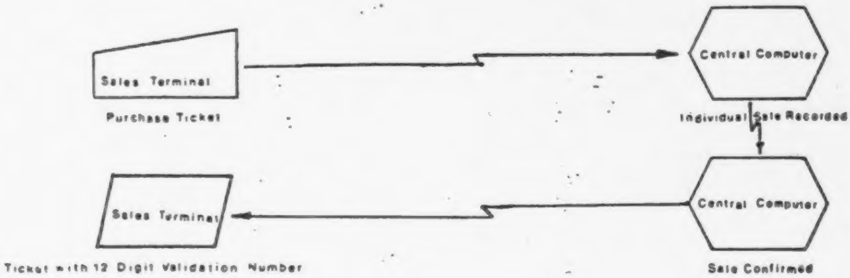
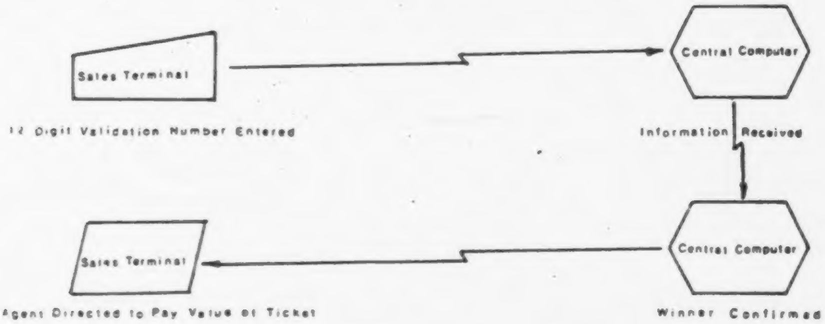

Sales Terminal
Purchase Ticket
Central Computer
Individual Sale Recorded
Central Computer
Sale Confirmed
Sales Terminal
Ticket with 12 Digit Validation Number

CHART "B"

On-Line Cashing Flow Chart


Sales Terminal
12 Digit Validation Number Entered
Central Computer
Information Received
Central Computer
Winner Confirmed
Sales Terminal
Agent Directed to Pay Value of Ticket

Each sale & cashing transaction takes less than 4 seconds and provides a complete hard copy audit trail on every ticket sold or cashed, showing time, date, agent location, type of wager and amount of wager.

North-American
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State
Lotteries

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  Pennsylvania
  Puerto Rico
  Rhode Island
  Vermont
  U.S. Virgin Islands
  Washington

Canada
  Atlantic Region
  Ontario
  Quebec
  Western Region

November 2, 1984

The Honorable Dave Durenberger
Chairman
Subcommittee on Intergovernmental
  Relations
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510

Dear Senator Durenberger:

Please find attached some correspondence and also some policy statements made by the North-American Association of State Lotteries in 1975 as well as the National Association of Broadcasters Television Code of July 1981 pertaining to Lottery advertising. This subject came up in our presentation to your Committee and I thought it would be of further interest to you.

Thank you for the opportunity of permitting the N.A.S.L. to participate in your hearing. If we can be of any further assistance in the future, please do not hesitate to contact us.

Sincerely,

Martin M. Puncke
President

MMP:ddw

Attachments

TRAHAN, BURDEN & CHARLES, INC.
ADVERTISING AND PUBLIC RELATIONS

October 30, 1984

Mr. Martin M. Puncke
Director
Maryland State Lottery
Suite 350, The Rotunda
711 West 40th Street
Baltimore, Maryland 21211

Dear Matt:

In an attempt to answer the question Senator Durenberger raised about Lottery advertising regulations, I have attached a copy of the NASL Code of Ethics which we follow.

The National Association of Broadcasters did publish The Television Code which was amended in 1975 to accommodate lawful advertising of legalized lotteries provided such advertising did not unduly exhort the public to bet. The Justice Department recently found the NAB Code to be in violation of the Sherman Antitrust Act and it was therefore found to be null and void.

The Federal Communications Commission has provided exceptions to their General Prohibition of Lottery Advertising for state operated lotteries. The FCC has established two conditions for advertising state lotteries which are attached.

I also checked with Shelley Wasserman to see if the State adopted any legislation regarding advertising of the Maryland Lottery. The Annotated Code of Maryland contains regulations in the Commercial Law Volume which protect consumers from deceptive trade practices. The sections do not mention lottery advertising specifically and were written to protect consumers from services which violate the consumer protection regulations.

It appears from my research of this subject that the NASL Code of Ethics contains the most comprehensive guidelines for advertising state lotteries.

Sincerely,

Jody Furman

Jody L. Furman
Account Supervisor

cc: E. Trahan
R. Laird

2225 North Charles Street Baltimore Maryland 21218 301-889-7500

National Association
of
State Lotteries
Advertising Code of Ethics

Preamble

The National Association of State Lotteries hereby establishes an Advertising Code of Ethics for the purpose of self-regulating the sale and promotion of State Lotteries and their various products. The Code establishes guidelines to insure truth in advertising; to provide for full and complete disclosure of prize structures and odds; to insure compliance with law and media industry codes and standards and to provide ethical and beneficial information to the public.

Membership in the NASL shall be contingent in part on each member's strict adherence to this Code of Ethics and any violations thereof shall be referred to the Committee on Ethics of the NASL. Any questions regarding planned programs, products or the content thereof may be referred to the Committee on Ethics for evaluation and guidance.

A. General

1. Truth in Advertising

No member shall knowingly approve or authorize or employ any advertising on behalf of its Lottery or any of its products which is false, misleading or otherwise deceptive as a means of encouraging the purchase of any lottery ticket or service. This rule shall apply to both words of copy and graphic illustration.

2. Standards of Good Taste and Behavior

All material prepared for the advertising and promotion of State Lottery products and services shall reflect accepted standards of good taste and behavior.

Such material may at no time or for any reason place emphasis on sex or sexual implications, ethnic consideration, physical disability or illness or any other untoward element which is distasteful or offensive to the public conscience.

3. Avoidance of Greed and Avarice

   Greed or avarice may not be suggested as a reason to participate in Lottery games or services.

4. Exhortations to Bet

   No member shall unduly exhort the public to bet by engaging in advertising or other promotional activities which misrepresent by any means, directly or indirectly, a lottery participant's chances of winning any prize, or which denegrate people who do not buy lottery tickets or unduly praises people who do buy tickets. It shall be a violation of this rule to use unqualified or inaccurate language regarding a potential winner's winnings (e.g., "Buy a ticket and be a winner").

5. Full Disclosure

   Complete and full disclosure of the total prize structure and odds of winning in each category shall be prominently published and circulated at the outset of all Lottery games. This information should appear clearly and conspicuously in tabular form in either the initial "launch" advertisement created to introduce a game or in the point of purchase brochure or both. The tabular statement of the prize structure shall include for each prize:

   (a) The prize amount
   (b) The number of prizes per million tickets (or per 100,000 or other appropriate number)
   (c) The odds of winning each prize
   (d) Any special restrictions pertaining to the prize (e.g., "Lifetime prize payments start at age 18 years or older and are paid for a minimum of 20 years.")

Such information must be readily available to the public at all times during any game. All restrictions imposed on Lottery participation and prize eligibility shall be prominently displayed in advertising where practicable. Player eligibility or age, claiming deadline, method of payment and other restrictive elements must be clearly stated.

B. Compliance with Law

No member shall engage in advertising or promotional practices which violate applicable local, state or federal law.

C. Media Codes

All advertisements prepared for broadcast on radio or television shall adhere to the National Association of Broadcasters Television Code and Radio Code rules concerning state conducted lotteries adopted in January, 1975.

THE TELEVISION CODE

National Association of Broadcasters
Twenty-Second Edition, July 1981

IV. SPECIAL PROGRAM STANDARDS

14. Game programs; contests.

A. Quiz and similar programs that are presented as contests of knowledge, information, skill or luck must, in fact, be genuine contests; and the results must not be controlled by collusion with or between contestants, or by any other action which will favor one contestant against any other.

B. Contests may not constitute a lottery.

IX. PRESENTATION OF ADVERTISING

Restricted or unacceptable categories

12. Betting/gambling. The advertising of tip sheets and other publications seeking to advertise for the purpose of giving odds or promoting betting is unacceptable.

The lawful advertising of government organizations which conduct legalized lotteries and the advertising of private or governmental organizations which conduct legalized betting on sporting contests are acceptable provided such advertising does not unduly exhort the public to bet.

CHARTING LOTTERIES

Published by National Association of Broadcasters

THE GENERAL PROHIBITION

The broadcasting of any lottery advertisement or information is a federal crime subject to prosecution by the Justice Department and punishable by fine and imprisonment.* Lotteries also violate FCC Rules and Regulations.** The potential penalties imposed by the FCC for violating the federal lottery laws range from a fine to a short term license renewal or even license revocation. No matter how slight the reference to a lottery in an advertisement, the broadcast of that advertisement is prohibited. If the event is in fact a lottery, a veiling or omission of the scheme's details in an advertisement renders it objectionable nonetheless. The law prohibits public service announcements as well as paid commercials. It does not matter who sponsors the lottery. The lottery prohibition includes those conducted by churches, schools, and other public service groups. Thus, a station should not broadcast any information which in any way advertises or promotes a lottery, for example: (1) a plea to enter the lottery; (2) when and how to enter; (3) where, how, or when the winner will be selected; and (4) a list of the winners.

It should be noted that regardless of the legality of a promotional plan under state law, if it is a lottery under federal law, the broadcast of any advertisement would be illegal. However, state-operated lotteries have been specifically exempted from the broadcast lottery laws.

To determine whether a particular promotion violates the federal lottery laws, set out the details of the plan and then ask yourself:

Prize:	1. Is there a prize? Is anything of value--including a refund or discount--being offered to the contestant? If the answers are yes, then go to question #2.
Chance:	2. (a) Is the winner selected on the basis of chance rather than on the basis of the participant's skill or other factors within his or her control? (b) Is the amount of the prize determined by chance? Does the contestant have the chance of winning any one of a number of prizes of differing values? If the answer to (a) or (b) is yes, proceed to question #3.
Consideration:	3. Must the contestant spend money or a substantial amount of time or effort in order to qualify for the contest? Do the requirements for participation constitute consideration?

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*18 U.S.C. §1304 (1976)   **47 C.F.R. §73.1211 (1978)

It it is determined that all three elements--prize, chance, and consideration--are present in a promotional plan, then under no circumstances should the plan be given broadcast time.

LOTTERY EXCEPTIONS

1. State-Operated Lotteries

A broadcaster can air advertisements, lists of prizes, and other information concerning a state-conducted lottery so long as two conditions are met. First, the licensee must be located in a state which conducts such a lottery; and (2) the lottery information broadcast concerns the lottery in the licensee's home state or in an adjacent state which also conducts such a lottery. For example, a station in New York, which conducts a lawful state lottery, can broadcast advertisements concerning the New York state lottery as well as the state lotteries of New Jersey, Pennsylvania, Massachusetts, and Connecticut, since these states are adjacent to New York and also conduct state lotteries. However, the exemption would not permit a station in Virginia to promote the state-operated lottery in Maryland. Although Virginia is adjacent to Maryland, Virginia does not conduct a state lottery.

TESTIMONY OF DANIEL W. BOWER
President, Scientific Games, Inc.
Oversight Hearing on State Lotteries
Senate Governmental Affairs Committee, Subcommittee on
Intergovernmental Relations

October 3, 1984

Mr. Chairman and members of the Subcommittee, my name is Daniel W. Bower. I am the president of Scientific Games, Incorporated which is headquartered in the Atlanta Metropolitan Area. I appreciate your invitation to present testimony to this Subcommittee.

Scientific Games was started in 1973 by John Koza, our CEO, and me. Scientific Games supplied the first instant lottery ticket to a United States lottery in Massachusetts in 1974. Since that time, we have supplied over 6 billion instant lottery tickets to 17 of the 18 lotteries in the United States and 3 of the Provincial lotteries in Canada. In addition, we have supplied over 1/2 billion instant lottery tickets to 10 foreign national lotteries. Besides supplying instant lottery tickets, we supply consulting services to governmental lotteries and are currently marketing our newest lottery product, the Player Activated Lottery Machine, commonly known in the industry as the video lottery.

Lotteries are our only business. As a result, more than most other vendors of lottery products, we have an acute interest in the nature of the lottery market.

You have asked me to address two topics: (1) the types of lottery games available to the public; and (2) the role that Scientific Games plays in establishing state lotteries across the United States. Please allow me to address each in turn.

I. Lottery games currently being played.

There are currently 4 "generations" of lottery products being played. The first is what is commonly referred to as the "weekly lottery." This is the game which was used when the modern lottery first started in 1964 in New Hampshire and was the dominant lottery product through the early 1970s. The weekly lottery is played with a ticket on which there is printed a play number. It is very similar to a raffle ticket in appearance and in play, although the method of computer controlled production is substantially more sophisticated to protect the integrity of the lottery. A player buys a ticket and waits for a weekly drawing to determine whether the number on his ticket matches the numbers drawn. If he does match, he wins a prize.

The second generation of lottery products is the instant lottery ticket. It is sold by 17 of the 18 U.S. lotteries. As I mentioned earlier, we were the first supplier of this lottery product when it was first used in Massachusetts in 1974. The instant ticket has play data which is concealed by a removable latex material. A player buys the ticket, scrapes off the latex, and "plays" the ticket according to instructions on the ticket. For example, the instant ticket may be for an instant game which uses a "match 3" theme. In that type of a game, when a player removes the latex, he finds 6 play symbols which are usually dollar amounts. If a player gets 3 identical play symbols, he wins the prize corresponding to that play symbol. For example, if he gets 3 play symbols of $10, he wins $10. So that you can get a better idea of what an instant ticket is like, I have available for you samples of instant tickets we have produced. (Tab A.)

In the instant game, a state purchases a specified quantity of tickets constituting one "game". Each game has its own game theme and prize structure. The game generally is on sale for 9 to 12 weeks, before a new game is introduced. The game has a predetermined prize structure which is set by the state. Winners are of two types: instant winners and grand prize drawing winners. As the name connotes, the instant winners are those which can be won "instantly" by rubbing the ticket. Some states also have grand prize drawings. Eligibility for entry to the grand prize drawing is defined by the state and can be such things as winning a specified prize level, collecting a specified number of losing tickets, etc. Instant prizes range from free tickets to low dollar prizes to high instant prizes such as $10,000, $50,000 or $100,000. For a grand prize drawing, the top prize is usually $1 million (usually paid out over 20 years or a lifetime). There are also smaller prizes in a grand prize drawing. Currently, the instant game accounts for approximately 1/3 of lottery sales.

The third generation lottery product is the "on-line system". This was introduced in the mid-70's. The on-line system is a series of terminals which are similar in appearance to cash registers and which are geographically dispersed throughout a state. The terminals are linked up by dedicated phone lines to a central computer site, usually at the State Capitol.

There are currently 3 types of on-line games. The first on-line game which was introduced was the 3-digit game, commonly referred to as the "numbers game". This was based on the illegal numbers game and designed to compete with the illegal numbers game (which it has done successfully). In this game, a player approaches the agent who has a terminal and selects three digits. The agent enters those three digits at his terminal and that play is recorded at the central site via the dedicated phone line. On a daily basis, there is a random drawing of a number and matching that number in prescribed ways wins prescribed prizes.

The second type of game playable on an on-line system is the pick 4 or 4-digit game. It is basically the same as the 3-digit game, except obviously that it uses 4 digits. Usually, the drawings in a 4-digit game are less often than daily, e.g., twice a week.

The third type of game in the on-line system is increasingly becoming the most popular. It is the lotto game. In that game, a player picks 6 numbers out of a specified array of numbers, such as 36, 40 or 44. A certain percentage of the revenues is placed in a grand prize fund which is only paid when an exact match of the 6-digit number is made. The drawings are once a week. If there is no exact match, the percentage of the prize fund allocated to the top prize then "rolls over" to the next week. In this manner, increasingly large "jackpots" are generated, such as the recent $40 million jackpot won in Illinois. Another portion of the revenues obtained from the sale of lotto tickets is dedicated for lesser prizes. For example, matching 5 or matching 4 of the six digits entitles the winner to a specified prize.

Seventeen of the 18 lottery jurisdictions in the United States currently have contracts for on-line systems. The on-line system lottery products account for approximately 2/3 of the revenues generated by state lotteries.

The 4th generation lottery product is the video lottery or the Player Activated Lottery Machine (PALM). This product is currently being tested by the Illinois State Lottery. Like the on-line system, the video lottery involves geographically dispersed terminals hooked up by telephone line to a central computer. Like the instant lottery game, a player can determine instantly whether he has won and does not have to wait for a drawing. The PALM is an unattended terminal that looks like a video amusement game such as Pac-Man. A player inserts his money into the PALM and plays an amusing and entertaining video game. While the player is playing the game, the PALM's computer system randomly determines whether that player is a winner of a lottery prize and, if so, the amount of the prize. At the conclusion of the game, the PALM announces to the player what prize he has won, if any. Receipts are printed in the PALM and issued to the player for the prize won. Those receipts are then redeemed through normal lottery redemption channels.

The PALMs or video lotteries were designed to appeal to younger individuals who have completed a higher level of education. This group is often called the Young Urban Professionals, or "Yuppies". This group is underrepresented in play of traditional lottery products. Early results from the Illinois PALM test indicates that video lotteries are successful in achieving their goal of appealing to precisely this target market.

II. Scientific Games' involvement in the establishment of new state lotteries.

The second subject you asked me to address is what role Scientific Games plays in establishing new state lotteries. As I mentioned earlier, lotteries are our only business. Accordingly, in order to expand our business, we rely to a large degree on the establishment of new state lotteries. We consider it a legitimate business activity to support those in states who would like to establish a lottery in their state. Indeed, such a business activity is well-precedented in our democratic system of government.

Because the establishment of state lotteries is so important to our growth, we actively support any efforts in that regard. For example, we supply information about lotteries to state officials, legislators or anyone else interested in starting a state lottery. Similarly, we provide expert testimony in state legislative hearings dealing with lottery legislation. We advertise our willingness to supply this type of information. (I have attached a copy of the advertisement we use at Tab B.) We obtain a substantial number of requests for information and support in connection with this overall effort.

At times, when a state legislature is actively pursuing lottery legislation and it appears that there is a possibility of passage, we may become more directly involved with that legislation. That involvement may include direct contact with legislators in that state. In certain cases, we also retain a lobbyist to assist in the passage of the lottery legislation, which we did in one state during the 1984 legislative session.

A third area of activity on our part involves the support of public initiative campaigns or lottery ballot questions. We supported the campaigns for public votes on a lottery in three jurisdictions in 1980 and are contributing to initiative drives in two states this year (out of the four states which have lottery ballot questions for the November election). I am often asked what factors are relevant in our determination as to whether to support an initiative drive. Generally, if public opinion polls establish that there is substantial popular support for a lottery, and if the legislature in that state has failed to respond to that public desire for a lottery, we consider the initiative process an appropriate way to implement the public's desire for a lottery.

In connection with all of our efforts to support new state lotteries, a primary goal is to make available information and data so that people understand what lotteries are and so that certain "myths" about lotteries are placed in their proper perspective. The following are some of the general subject matters that we are inevitably asked to address:

1. General information about lotteries.

Although lotteries have been used by governments to raise revenue since the ancient Roman times, and the modern United States lottery started 20 years ago, many people have no knowledge about lotteries at all. For these people, we try to provide very general information. For example, we distribute a paper we prepared in a simple readable format called "Questions and Answers About a State Lottery". Similarly, we provide copies of magazine articles from reputable magazines which discuss lotteries in a general way. I have some of this type of material which we supply available for you today. (Tab C.)

2. Mechanics of legalizing a lottery.

Frequently, we are asked for advice on how to legalize a lottery in a particular state. States vary as to whether there is a prohibition against lotteries in the state constitution and as to whether the initiative process is available. We have prepared a paper covering this subject. For state legislators who want assistance in drafting legislation to implement a lottery, we make available a copy of a model bill to implement a state operated lottery. That model bill was developed after analysis of the implementing legislation in all lottery states and consultation with numerous administrators of state lotteries. I have available for you today a paper discussing the methods of legalizing a state lottery together with the model bill. (Tab D.)

3. Economic benefits from a state lottery.

Probably the most dominant question asked about a lottery is how much revenue it can raise for a state. We have collected substantial information about lottery sales over the years. It is amazing to realize that gross revenues from United States lotteries have increased from $40 million in 1970 to over $6 billion in 1983! We have also been asked over the years to project how much lottery revenues would be generated by a specific state. Consistently, our projections have been accurate, albeit slightly conservative. I have available for you today the type of information we have collected concerning the economic benefits of state lotteries and which we make available upon request. This information includes data on lottery sales over the years, a paper on the economic benefits to be derived by a particular state from a state lottery, and a paper which discuss how each lottery dollar is allocated to such things as prizes, operating costs and net revenues for public use. (Tab E.)

4. Myths about a state lottery.

For whatever reason, numerous "myths" about state lotteries have materialized and then have been popularized by opponents of a state lottery. Although there are certain legitimate philosophical questions implicit in a determination of whether to establish a lottery, many opponents opt for more sensational attacks on lotteries which are invariably without any factual basis. We try to provide accurate information concerning these "myths" so that lottery supporters can answer unsubstantiated attacks with hard data. And, that hard data is available. The only reliable source of information on what to expect after a lottery starts up comes from those states which have actually experienced the operation of a lottery. Because lotteries are operated in a political and media "fish bowl", state lotteries generate and collect vast amounts of data concerning the operations and effects of a lottery. That data is of extreme value in responding to the myths that occasionally surround a state operated lottery. Some of the more prevalent myths we are asked to address are the following:

a. Lotteries and the poor. Perhaps the most repeated objection to state operated lotteries is that poor people buy a disproportionate amount of lottery tickets. Some people take offense at objections to lotteries on this ground because, as Mayor Ernest Morial of New Orleans once said, "The argument smacks of a kind of elitist paternalism that I find distasteful." In any event, the attack is totally unsubstantiated. Numerous detailed statistical studies have been done about the demographic characteristics of lottery players. These studies establish that lower income people play the lottery to a lesser degree than their proportion of the population. Typically, most lottery tickets are bought by persons between the ages of 35 and 54 whose household incomes are between $12,000 and $36,000. A related argument is that lotteries are a "regressive tax". However, a lottery is not a tax. It is an entirely voluntary activity on which people spend their discretionary income. Lotteries are no more a regressive tax than are movies, attendance at sports games, or any of the other numerous leisure time activities which people voluntarily decide whether to spend money on. I have brought with me today a paper we prepared summarizing the numerous demographic studies about lottery players. I have also brought some articles written by our CEO, Dr. John R. Koza, summarizing the results of statistical analyses our company has done relating to this issue. A review of these materials will quickly debunk the myth that lotteries prey on the poor. (Tab F.)

b. Lotteries and crime.

An objection that occasionally emerges is that lotteries create a law enforcement problem. Perhaps this objection finds its origin in the lottery scandals of the early 1800s when lotteries were operated by private companies. Or, perhaps this objection finds its origin in preconceived prejudices about lotteries based on perceptions of what occur in the privately operated gaming industries of horse racing and casinos. Whatever the source of the objection, the objection itself is totally unfounded. Twenty years of experience with modern state lotteries has established conclusively that lotteries do not encourage crime and, in fact, quite the reverse is probably true. Even in California where opposition by public officials to lotteries has been the norm, a 1971 Task Force Report on Legalized Gambling for the Attorney General of California concluded that "the law enforcement problems attending state operated lotteries are minimal to nonexistent." Indeed, a national study commissioned by President Ford in 1975 reached this conclusion: "The presence of a state lottery decreases illegal gambling and accounts for a difference of almost 5 percentage points compared to a situation without a lottery. Since average participation in illegal gambling involves less than 11% of the population, this is a substantial swing in behavior." Despite these and other studies, the criticism is still lodged. Working with people like Edward Powers, a highly-respected former FBI agent and first Director of the New Hampshire Lottery, we provide substantial information about this issue to people interested in lotteries. As an example, I have brought with me today a paper we prepared entitled "Lotteries and Crime". (Tab G.)

c. Compulsive gambling. Occasionally, certain individuals associated with the treatment of compulsive gambling allege that lotteries create compulsive gamblers. These same people argue that a portion of the revenues from the sale of lottery tickets should be spent on compulsive gambling treatment centers. However, there is no factual basis to this claim. Even Monsignor Joseph Dunn, the President of the National Council on Compulsive Gambling, admits that there is "no acceptable research" done to establish that state operated lotteries cause compulsive gambling. In fact, a study by the Colorado State Lottery concluded that "lottery games, in general, do not appeal to persons whose compulsive behavior evidences itself in gambling or risk-taking on a compulsive basis." Newsweek reached a similar conclusion: "The only games that apparently pose no real threat of addiction are state lotteries. That's because they don't have enough action." (Newsweek, March 3, 1980, page 70.) We generally distribute a very good magazine article which discusses this and other myths. (Tab H.)

d. Lotteries and the parimutuel industry. Where there are established race tracks, the introduction of a state operated lottery occasionally is opposed by the parimutuel industry. There seems to be a "kneejerk" reaction that there is some phenomenon called "the gambling dollar" and that every dollar spent playing the lottery is one less dollar spent on parimutuel wagering. That position has never been supported by any empirical analysis which could be found and all available evidence indicates that it is simply untrue. In fact, in established lottery states, there has developed a very cooperative and mutually supportive relationship between the lottery and race tracks. We have investigated this situation and prepared a paper summarizing our results. We make this paper available to those who are interested in this issue and I have brought a copy of it today for you. (Tab I.)

By providing information about these issues, we believe that we are facilitating a relevant debate about the public policy issues related to establishing a state lottery. When the facts are known, we think that most people will conclude, as did Thomas Jefferson, that "lotteries are a wonderful thing."

III. Conclusion

Mr. Chairman and members of the Subcommittee, this concludes my comments. I trust that I have adequately addressed the two issues you have asked me to address. Lotteries are a tremendously popular and painless source of revenue. A survey by the University of Michigan, done in 1975 for the National Commission on Gambling, showed that 82% of the residents of lottery states approve of lotteries. Nationwide, the figure for approval is 71%. A more recent University of Michigan study found that public support for gaming increased dramatically in America between the date of their first survey and 1982. With that ever-increasing popularity, it is understandable that more and more states are considering the establishment of a state operated lottery. I commend this Subcommittee for conducting these hearings on this very current topic. I appreciate the time you have taken to listen to this testimony and offer to provide whatever additional information you may need.

TRAHAN, BURDEN & CHARLES, INC.
ADVERTISING AND PUBLIC RELATIONS

ADVERTISING AND MARKETING

THE MARYLAND STATE LOTTERY

PREPARED FOR

THE SENATE GOVERNMENTAL AFFAIRS COMMITTEE

SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS

September 26, 1984

2225 North Charles Street Baltimore Maryland 21218 301-889-7500

AN OVERVIEW ON
ADVERTISING STATE LOTTERIES

A lottery ticket has characteristics which find no parallel in the world of product or service advertising. Any product or service which comes to mind exists because it delivers a predictable benefit to the consumer, however marginal that benefit may be. Product loyalty is built into the consumer's behavior because time after time he experiences some kind of gratification or reinforcement.

Advertising plays a critical role in reminding, promising, and reinforcing the reasons a consumer should utilize a particular product or service. Conventional advertising strategies which would be most effective with a typical consumer product do not apply to the lottery industry, because a lottery ticket does not have the characteristics of the average consumer product.

The inescapable fact of probability tells us that the great majority of ticket consumers will experience failure after failure. In this context the idea of continuity in an advertising campaign over a long period of time will not encourage an increase in sales.

Unlike advertising a consumer product where constant exposure of the brand reinforces the experience of satisfaction and invites the consumer to relive that satisfactory experience, constant exposure of a lottery ticket and agent location has the opposite effect. It reminds the majority of purchasers that they didn't win, creating a negative impression that inhibits repeat purchases.

Since it is ineffective and most often counter-productive to advertise a lottery ticket as a product, we have created a series of television and radio commercials which highlight the fun of playing the game and take the onus away from gambling. We want to feed the consumers need for fun and excitement propelling the fantasy which motivates them to buy the next ticket.

In the initial stages of a new lottery game, almost any advertising approach is likely to succeed because everyone thinks that they are going to win. All the advertising has to do is hold forth the carrot. It is only after the various games have been around for a while and the negative gratification begins to set in that the job of selling future expectations becomes more difficult.

The notion of impulse buying as it applies to a lottery product deserves comment. One repeatedly hears in the lottery industry that purchasing a lottery ticket is an impulse decision.

It is an undeniable fact that sales of lottery products can be increased by placing well-designed, eye-catching and attractive advertising material at the point of purchase. To the extent that "impulse buying" is used to reflect this type activity, the characterization is accurate.

Used in the sense that the consumer purchases of Pick 3, Pick 4 and Lotto tickets are irregular, random and not part of a pattern of purchase is totally wrong. The overwhelming percentage of money raised from all lottery products is raised from regular, loyal, repeat customers. It is lucky for the lottery industry that is the case. Lottery products are very inexpensive, usually 50¢ or $1.00. The cost of the advertising necessary to generate single new sales to uncommitted non-users is inherently expensive when applied to 50¢ and $1.00 products.

Once one realizes that buying products is not impulse buying, combined with the reality of the inexpensive price of the tickets, one can see that the objective of advertising, promotion and marketing in the state lottery industry should be to develop regular participants of the games, not casual impulse sales.

Selling gaming of any sort requires a significant amount of diplomacy. As tolerant and even eager as most people are when it comes to being sold on legalized state wagering, the subject is still a sensitive one for a small percentage of the population. Humor and creativity play a major role in our advertising for the Maryland State Lottery. We keep the emphasis on the fun of playing while providing a balanced education and public relations program.

The Maryland State Lottery advertising program, in keeping with the profile of the average middle income North American lottery player, is targeted to reach adults between 18 and 54 years of age, with a high school education or better and a household income of $20,000 or more. We have included sections on agent location sales correlation, budget, media, comparative demographics and sample creative.

These submissions provide an overview of the elements in a marketing plan which help us to create, promote and sell the Lottery.

AGENT LOCATION SALES CORRELATION

In order to access the ability of lottery terminals to generate sales of the different lottery games, a detailed revenue analysis was performed. The data was evaluated for Pick 3, Pick 4 and Lotto sales comparing the number of terminals in each county.

A two step analysis was compiled on the database. The first step of the analysis provides

A. Terminal Allocation Index

B. Product Development Index for Pick 3, Pick 4 and Lotto.

A brief definition of these factors is provided below.

Terminal Allocation Index

A ratio of percent terminals in a county and percent population in the county.

For example, Allegany County has a population of 76,780 and 9 terminals out of a total 1233 terminals. Therefore the terminal development index is computed as follows:

% Population in Allegany $\frac{76,780}{4,270,000}$

1.8%

% Terminals in Allegany $\frac{9}{1233}$

.7

Terminal Development Index $\frac{.7}{1.8}$

= 38

This indicates that Allegany County has a lower number of terminals compared to its population. The Terminal Development Index for each of the counties in Maryland is provided.

The relative sales performance of these terminals for Pick 3, Pick 4 and Lotto is computed with the Business Development Index.

Business Development Index

Business Development Index is the ratio of percent revenue generated by a specific game in a county and its percent population.

For example, Anne Arundel County accounts for 5.2% of Pick 3 sales and 9.0% of the Maryland population. Then the Business Development Index for Anne Arundel County is

Business Development Index = $\frac{5.2}{9.0}$

= 58

The detailed computation of the Business Index for Pick 3, Pick 4 and Lotto by Counties are provided on the following pages.

PICK 3 SALES

	% of Total County Sales	% of Statewide Sales	% of Statewide Population	Business Development Index
Allegany	52.7	.4	1.8	22
Anne Arundel	70.0	5.2	9.0	58
Baltimore	70.3	10.6	15.4	69
Baltimore City	81.8	32.8	17.8	184
Calvert	73.5	.5	.8	63
Caroline	63.6	.2	.5	40
Carroll	56.6	.5	2.3	22
Cecil	51.7	.3	1.4	21
Charles	75.8	1.8	1.8	100
Dorchester	77.5	.4	.7	57
Frederick	62.7	.9	2.8	32
Garrett	44.7	.04	.6	6
Harford	65.0	1.2	3.5	34
Howard	66.7	.9	3.0	30
Kent	71.2	.3	.4	75
Montgomery	69.3	8.0	13.7	58
Prince George's	76.1	32.0	15.5	206
Queen Anne's	73.0	.4	.6	67
St. Mary's	78.0	.7	1.4	50
Somerset	84.4	.3	.4	75
Talbot	75.9	.4	.6	67
Washington	40.3	.4	2.6	15
Wicomico	76.3	.7	1.5	47
Worchester	76.8	.8	.7	114

PICK 4 SALES

	% of Total County Sales	% of Statewide Sales	% of Statewide Population	Business Development Index
Allegany	8.7	.5	1.8	28
Anne Arundel	9.1	5.1	9.0	57
Baltimore	70.3	10.4	15.4	68
Baltimore City	9.2	27.8	17.8	156
Calvert	10.8	.6	.8	75
Caroline	8.6	.2	.5	40
Carroll	7.9	.5	2.3	22
Cecil	8.8	.4	1.4	28
Charles	8.8	1.5	1.8	83
Dorchester	6.5	.2	.7	28
Frederick	9.4	1.0	2.8	36
Garrett	6.7	.05	.6	8
Harford	9.1	1.3	3.5	37
Howard	9.1	.9	3.0	30
Kent	8.6	.3	.4	75
Montgomery	11.1	9.7	13.7	71
Prince George's	11.6	36.6	15.5	236
Queen Anne's	7.2	.3	.6	50
St. Mary's	7.1	.5	1.4	36
Somerset	5.4	.1	.4	25
Talbot	6.8	.3	.6	50
Washington	8.0	.6	2.6	23
Wicomico	7.3	.5	1.5	33
Worchester	6.8	.5	.7	71

LOTTO SALES

	% of Total County Sales	% of Statewide Sales	% of Statewide Population	Business Development Index
Allegany	38.6	1.6	1.8	89
Anne Arundel	21.0	7.9	9.0	88
Baltimore	20.6	15.6	15.4	101
Baltimore City	9.0	18.2	17.8	102
Calvert	15.7	.6	.8	75
Caroline	27.8	.5	.5	100
Carroll	35.5	1.7	2.3	74
Cecil	39.5	1.2	1.4	86
Charles	15.4	1.8	1.8	100
Dorchester	16.0	.4	.7	57
Frederick	27.9	2.0	2.8	71
Garrett	48.6	.2	.6	33
Harford	26.0	2.4	3.5	68
Howard	24.3	1.7	3.0	57
Kent	20.2	.4	.4	100
Montgomery	19.6	11.4	13.7	83
Prince George's	12.4	26.2	15.5	169
Queen Anne's	19.7	.5	.6	83
St. Mary's	14.9	.7	1.4	50
Somerset	10.2	.2	.4	50
Talbot	17.3	.5	.6	83
Washington	51.7	2.7	2.6	104
Wicomico	16.5	.7	1.5	47
Worchester	16.4	.9	.7	128

	Number of Terminals	% of Statewide Distribution	% of Statewide Population	Business Development Index
Allegany	9	.7	1.8	38
Anne Arundel	78	6.3	9.0	70
Baltimore	165	13.4	15.4	87
Baltimore City	396	32.1	17.8	180
Calvert	9	.7	.8	87
Caroline	5	.4	.5	80
Carroll	16	1.3	2.3	56
Cecil	8	.6	1.4	43
Charles	17	1.4	1.8	77
Dorchester	5	.4	.7	57
Frederick	15	1.2	2.8	43
Garrett	2	.2	.6	33
Harford	23	1.9	3.5	54
Howard	18	1.5	3.0	50
Kent	4	.3	.4	75
Montgomery	101	8.2	13.7	60
Prince George's	302	24.5	15.5	158
Queen Anne's	7	.6	.6	100
St. Mary's	9	.7	1.4	50
Somerset	4	.3	.4	75
Talbot	7	.6	.6	100
Washington	10	.8	2.6	31
Wicomico	9	.7	1.5	46
Worchester	11	.9	.7	128

In the second step of the analysis, the Terminal Development Index and the Game Development Index for each of the games is compared with the help of a 3 x 3 matrix.

To prepare the matrix, both the Terminal Development Index and the Game Development Index are divided into three strata as shown below:

	Terminal Development Index	Game Development Index
High	100+	100+
Medium	70-99	70-99
Low	Below 70	Below 70

Thus each of the counties within the state will belong to one of the nine cells.

		Terminals		
		HIGH	MEDIUM	LOW
Game Type	HIGH	1	2	3
	MEDIUM	4	5	6
	LOW	7	8	9

A brief description of each of the cells is provided.

Cell #1 - High Game/High Terminal

Counties belonging to this cell produce above average revenue per terminal. More terminals placed in these counties would continue to generate increased revenues.

Cell # 2 - High Game/Medium Terminal

Counties belonging to this cell produce above average revenue per terminal, however there are not enough terminals in these counties to cater to the population. A terminal expansion program is targeted for these counties.

Cell 3 - High Game/Low Terminal

Counties belonging to this cell produce above average revenue per terminal. The number of terminals in these counties is significantly less than what is needed to satisfy the lottery playing habits of the population. The first priority in the terminal expansion program should be undertaken in these counties.

Cell 4 - Medium Game/High Terminal

Counties belonging to this cell generate average or less than average revenue per terminal compared to the playing population in the county. Terminal expansion should not be considered for the counties which fall into Cell 4.

Cell 5 - Medium Game/Medium Terminal

Counties in this cell generate average or below average revenue with average or below average number of terminals.

Cell 6 - Medium Game/Low Terminal

Counties in this cell generate average revenue with significantly fewer terminals than percent population.

Cell 7 - Low Game/High Terminal

Counties in this cell generate below average revenue for each of the terminals.

Cell 8 - Low Game/Medium Terminal

Counties belonging to this cell do not generate average revenue, however they do not have excess terminals.

Cell 9 - Low Game/Low Terminal

Counties belonging to this cell do not generate average revenue, however the limited number of terminals in these counties would not warrant any action.

The terminal expansion program requires a detailed sales analysis of each of the agent locations. This analysis is best performed in conjunction with the block Census data available, so that key demographic characteristics for an above average terminal could be successfully marketed in other counties within the state.

The Maryland State Lottery is currently conducting a statewide study of the lottery player by game type and their buying habits. The results of this Gallup Organization research project will be utilized to maximize advertising effectiveness.

PICK 3 Terminals

PICK 3	High (100 +)			Medium (70-99)			Low (Under 70)		
	County	Terminals	Pick 3	County	Terminals	Pick 3	County	Terminals	Pick 3
High (100 +)	Baltimore City	180	184	Charles	77	100			
	Prince George's	158	206						
	Worchester	128	114						
	County	Terminals	Pick 3	County	Terminals	Pick 3	County	Terminals	Pick 3
Medium (70-99)				Kent	75	75			
				Somerset	75	75			
	County	Terminals	Pick 3	County	Terminals	Pick 3	County	Terminals	Pick 3
Low (Under 70)				Anne Arundel	70	58	Allegany	38	22
				Baltimore	87	68	Carroll	56	22
				Calvert	87	63	Cecil	21	53
				Caroline	80	40	Dorchester	57	57
				Queen Anne's	100	67	Frederick	43	32
				Talbot	100	67	Garrett	33	6
							Harford	54	34
							Howard	50	30
							Montgomery	60	58
							St. Mary's	50	50
							Washington	31	15

PICK 4

Terminals

PICK 4	High (100 +)			Medium (70-99)			Low (Under 70)		
	County	Terminals	Pick-4	County	Terminals	Pick-4	County	Terminals	Pick-4
High (100 +)	Baltimore City	180	156						
	Prince George's	158	236						
	County	Terminals	Pick-4	County	Terminals	Pick-4	County	Terminals	Pick-4
Medium (70-99)	Worchester	128	71	Calvert	87	75	Montgomery	60	71
				Charles	77	83			
				Kent	75	75			
	County	Terminals	Pick-4	County	Terminals	Pick-4	County	Terminals	Pick-4
Low (Under 70)				Anne Arundel	70	57	Allehany	38	28
				Baltimore	87	57	Carroll	56	22
				Caroline	80	40	Cecil	43	28
				Queen Anne's	100	50	Dorchester	57	28
				Somerset	75	25	Frederick	43	36
				Talbot	100	50	Garrett	33	8
							Harford	54	37
							Howard	50	30
							St. Mary's	50	36
							Washington	31	23
							Wicomico	46	33

LOTTO

Terminals

LOTTO	High (100 +)			Medium (70-99)			Low (Under 70)		
	County	Terminals	Lotto	County	Terminals	Lotto	County	Terminals	Lotto
High (100 +)	Prince Georges	158	169	Baltimore	87	101	Charles	43	100
	Worchester	128	128	Caroline	80	100	Washington	31	104
				Kent	75	100			
Medium (70-99)	Baltimore City	180	102	Anne Arundel	70	88	Allegany	38	89
				Calvert	87	75	Carroll	56	74
				Queen Anne's	100	83	Frederick	57	71
				Talbot	100	83	Montgomery	60	83
							Cecil	43	74
Low (Under 70)				Dorchester	77	57	Garrett	33	33
				Somerset	75	50	Harford	54	68
							Howard	50	57
							St. Mary's	50	50
							Wicomico	46	47

BUDGET

Each year the Maryland State Lottery Agency submits a detailed accounting of operational expenses to the State Division of Budget. The advertising needs for broadcast, print, point of sale materials, public relations and production are included as a part of the operating expenses.

After review by the Division of Budget, the Governor includes a request in the budget message to the General Assembly for approval by the House and Senate.

The Maryland State Lottery operates on .4% of advertising to gross sales. It is particularly interesting to note that the Maryland Lottery has the lowest percentage of advertising to sales ratio among lottery states and continues to produce the highest per capita sales in the Country.

In fiscal year 1984, the Maryland State Lottery produced $536 million in gross sales. More than fifty percent of the money was returned to players as prizes and over $216 million was deposited in the State General Fund. Since its beginning in 1974, the Maryland Lottery has contributed over $1.3 billion to the General Fund.

MEDIA

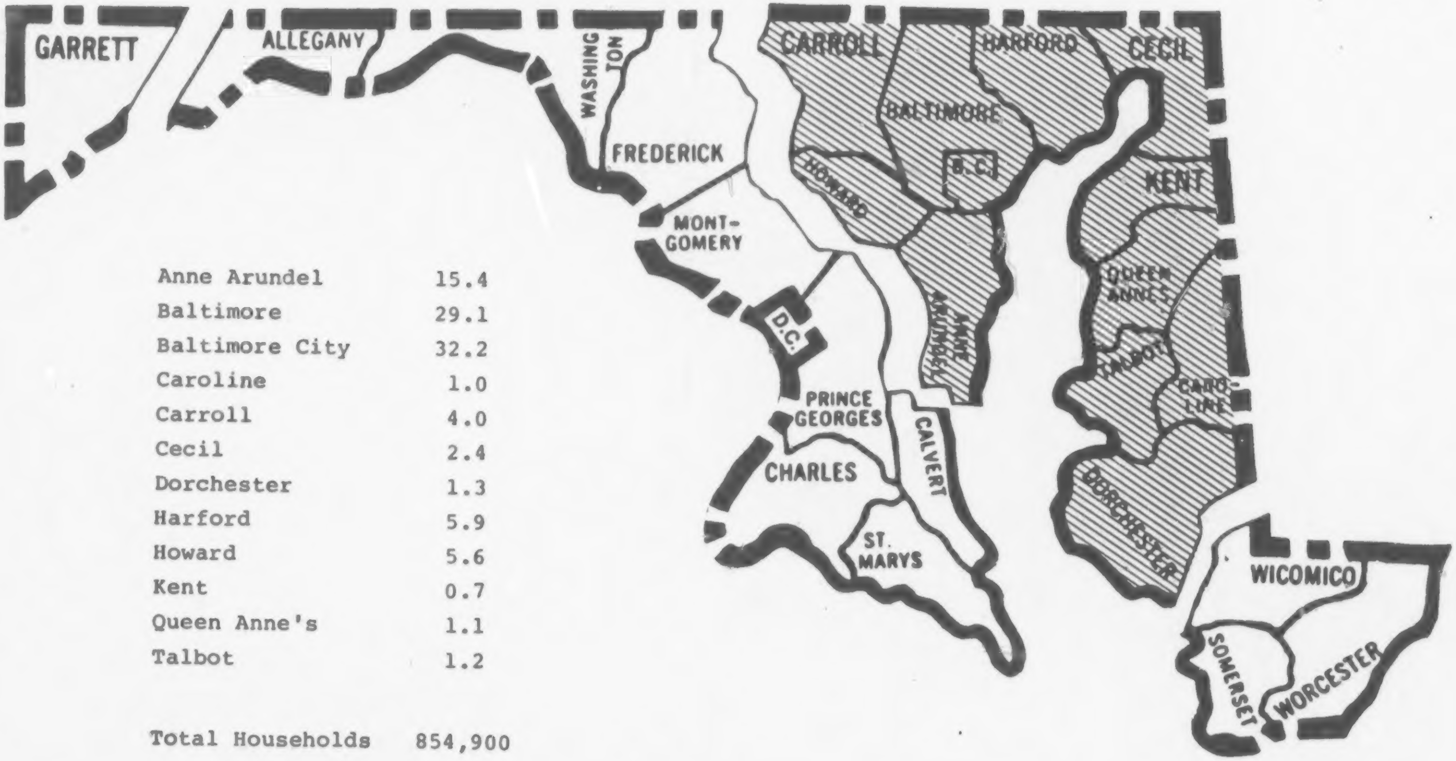
The Maryland State Lottery media plan for fiscal year 1985 allocates 74% to television advertising, 20% to radio and 6% to newspaper and magazines.

The majority of television advertising is dedicated to the Baltimore and Washington ADI's (Areas of Dominant Influence). You will see from the county share maps on the following pages that the Baltimore and Washington ADI's together reach 97% of the population. Radio is used to support seasonal promotions and to reinforce the television message. Newspapers and magazines are selectively targeted for exposure of the education/public relations message.

The Maryland State Lottery spends a minimum of ten percent annually on advertising for the expressed purpose of explaining where the lottery money goes. A pamphlet of information is available from Lottery headquarters and is distributed to all agent locations.

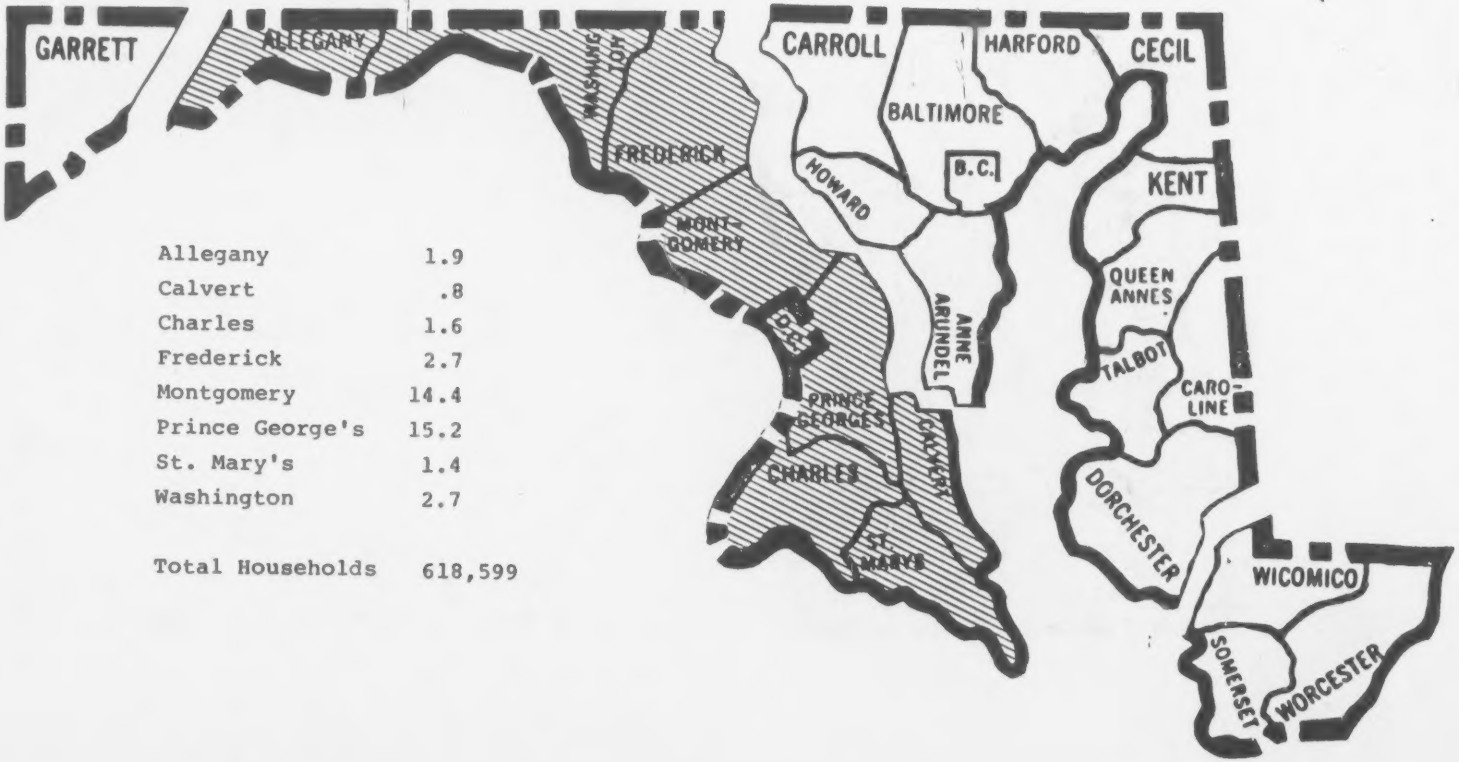
The series of television, radio and newspaper ads created by Trahan, Burden & Charles, Inc. highlights the services provided through the State General Fund. The campaign created for Health, Education and Human Resources has been recognized by the world Institute of Black Communications, Inc. for sensitivity to the minority market.

COUNTY SHARE OF TOTAL HOUSEHOLDS IN BALTIMORE ADI


GARRETT
ALLEGANY
WASHINGTON
FREDERICK
MONTGOMERY
D.C.
PRINCE GEORGES
CHARLES
ST. MARYS
CALVERT
CARROLL
HOWARD
BALTIMORE
B.C.
ANNE ARUNDEL
HARFORD
CECIL
KENT
QUEEN ANNES
TALBOT
CAROLINE
DORCHESTER
WICOMICO
SOMERSET
WORCESTER

Anne Arundel	15.4
Baltimore	29.1
Baltimore City	32.2
Caroline	1.0
Carroll	4.0
Cecil	2.4
Dorchester	1.3
Harford	5.9
Howard	5.6
Kent	0.7
Queen Anne's	1.1
Talbot	1.2
Total Households	854,900

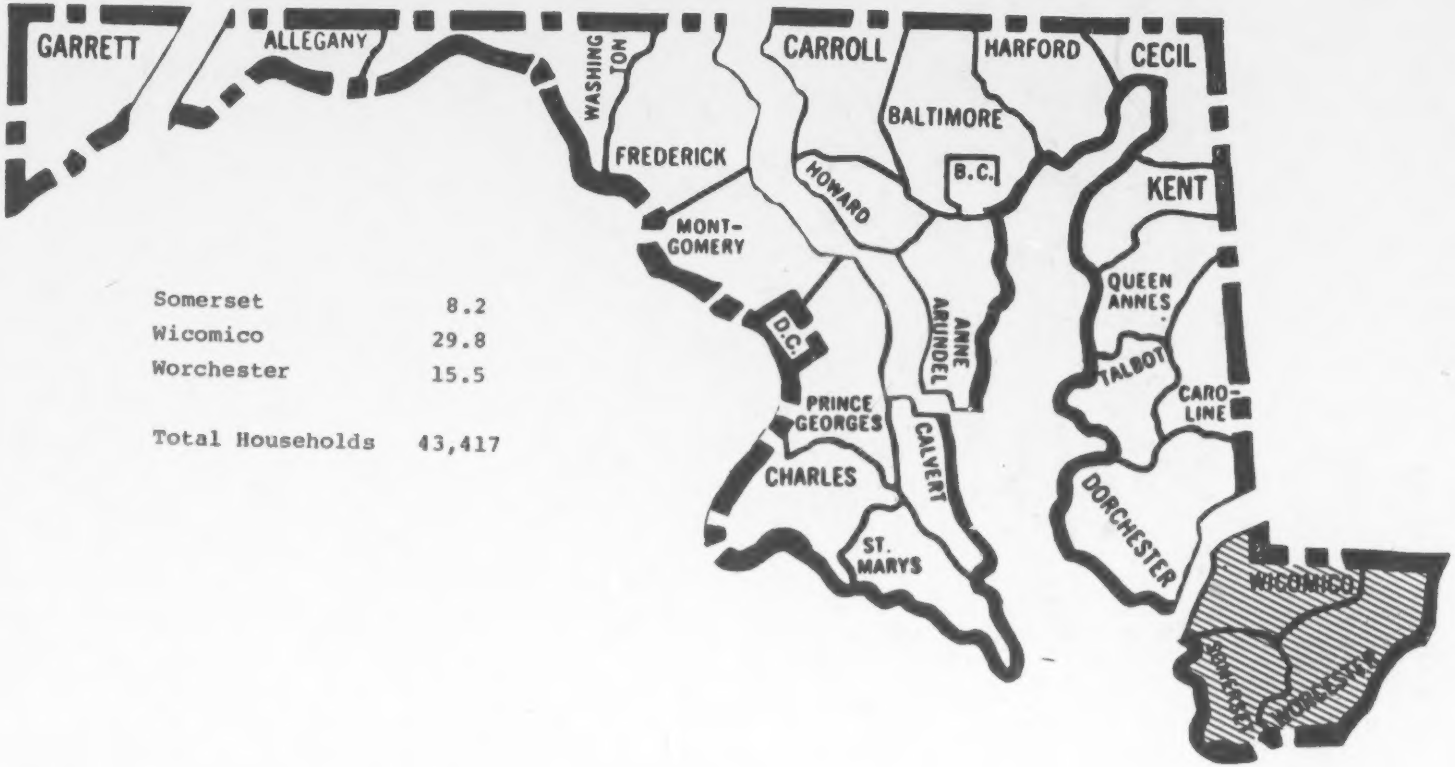
COUNTY SHARE OF TOTAL HOUSEHOLDS IN WASHINGTON ADI


GARRETT
ALLEGANY
WASHING TON
FREDERICK
MONT-GOMERY
D.C.
PRINCE GEORGES
CHARLES
CALVERT
ST. MARYS
CARROLL
HOWARD
BALTIMORE
B.C.
HARFORD
ANNE ARUNDEL
CECIL
KENT
QUEEN ANNES
TALBOT
CARO-LINE
DORCHESTER
WICOMICO
SOMERSET
WORCESTER

Allegany	1.9
Calvert	.8
Charles	1.6
Frederick	2.7
Montgomery	14.4
Prince George's	15.2
St. Mary's	1.4
Washington	2.7
Total Households	618,599

COUNTY SHARE OF TOTAL HOUSEHOLDS IN

SALISBURY ADI


GARRETT
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WASHINGTON
FREDERICK
CARROLL
BALTIMORE
B.C.
HARFORD
CECIL
HOWARD
MONTGOMERY
D.C.
ANNE ARUNDEL
KENT
QUEEN ANNES
TALBOT
CAROLINE
PRINCE GEORGES
CHARLES
CALVERT
ST. MARYS
DORCHESTER
WICOMICO
SOMERSET
WORCESTER

Somerset	8.2
Wicomico	29.8
Worchester	15.5
Total Households	43,417

The key marketing objectives stated in the annual plan for 1985 are as follows:

1. To concentrate on maintaining the sales momentum of Pick 3, Pick 4 and Lotto.

2. To provide a competitive share of voice against the District Lottery in the Washington market.

To achieve the marketing objectives, the following list of media objectives has been established:

1. To provide weekly exposure of the Lotto jackpot annuity value. The levels of exposure will be increased in direct proportion to the size of the jackpot.

2. To maintain a base level of media support for the Pick 3 and Pick 4 games.

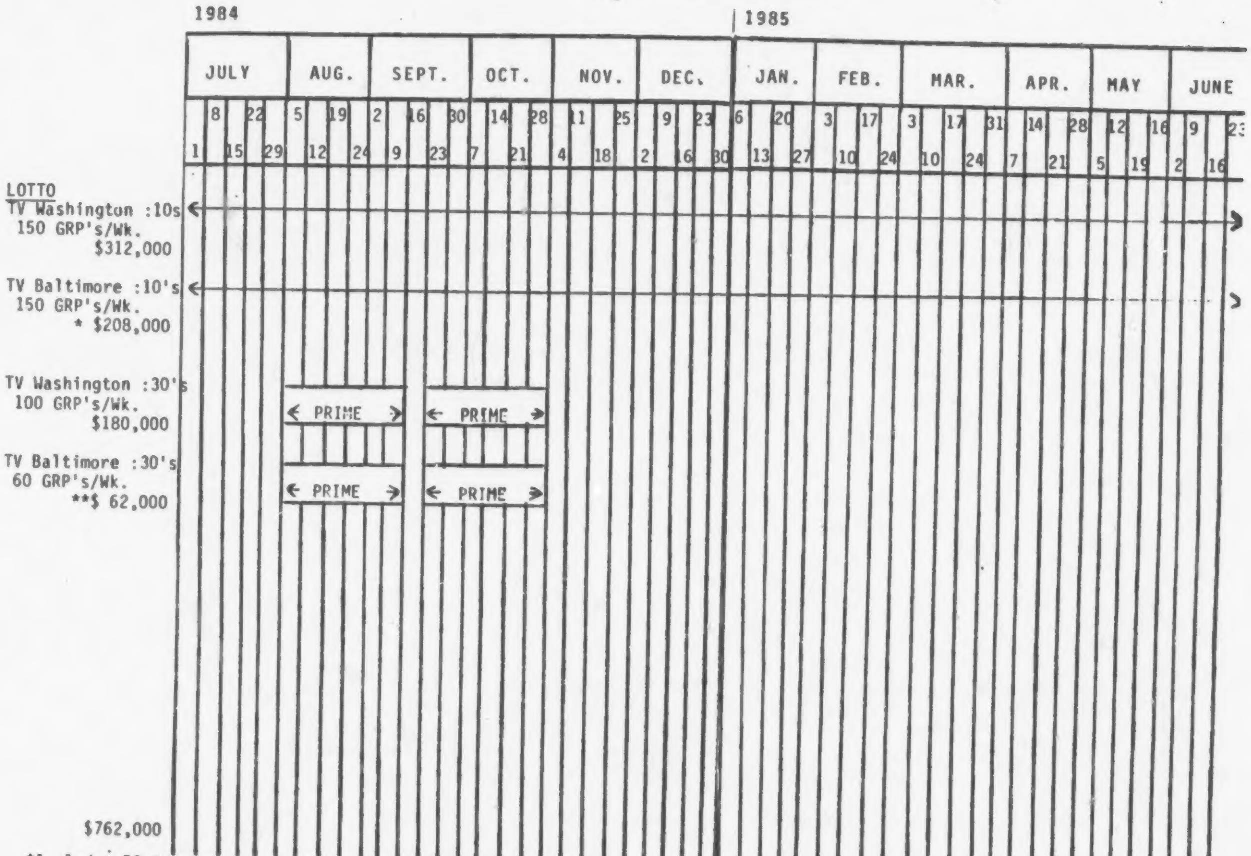
3. To generate increased awareness of the Lotto Subscription game, particularly during the Holiday gift giving season.

4. To plan higher media weights in the Washington market providing an effective share of voice against the D.C. Lottery.

MEDIA

FLOW CHARTS

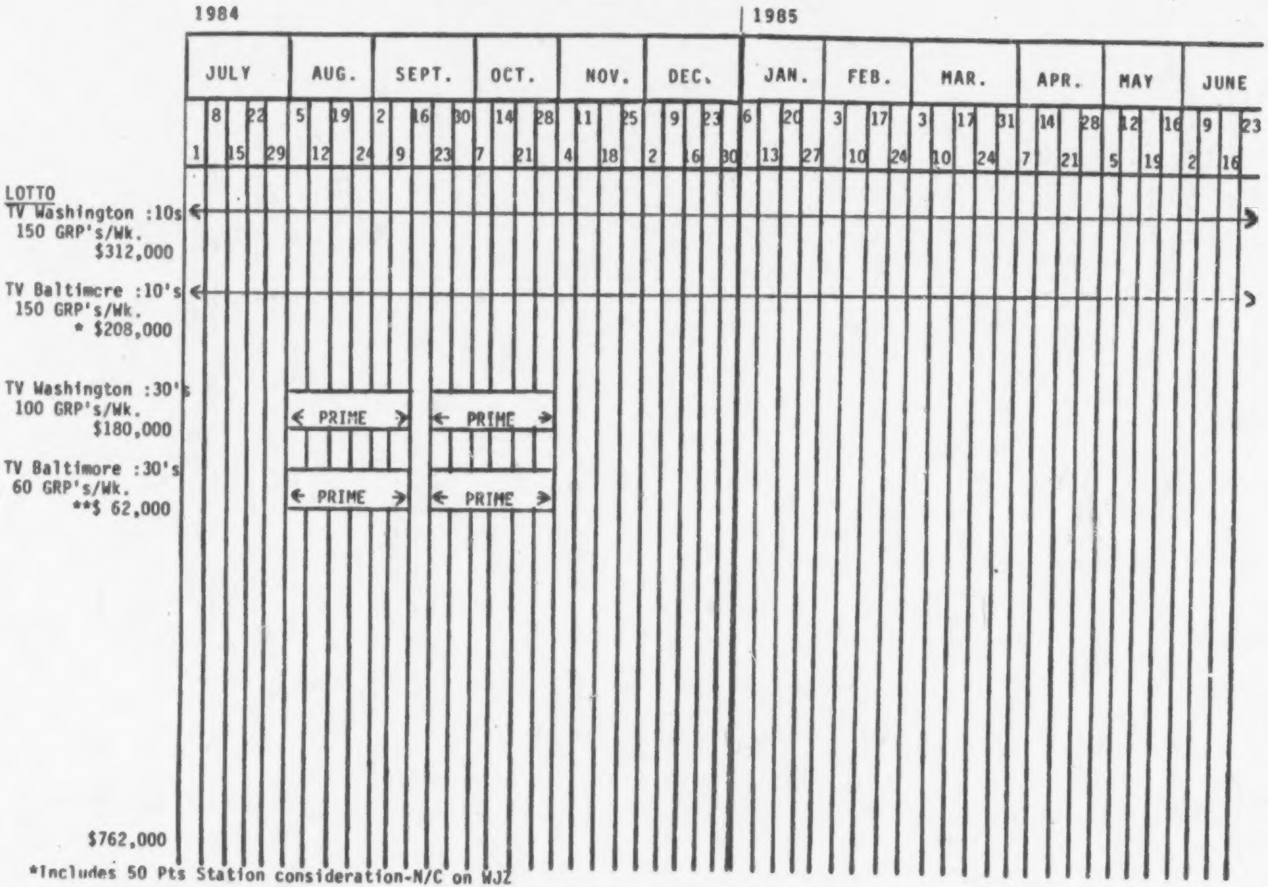
MARYLAND STATE LOTTERY AGENCY FY 1985



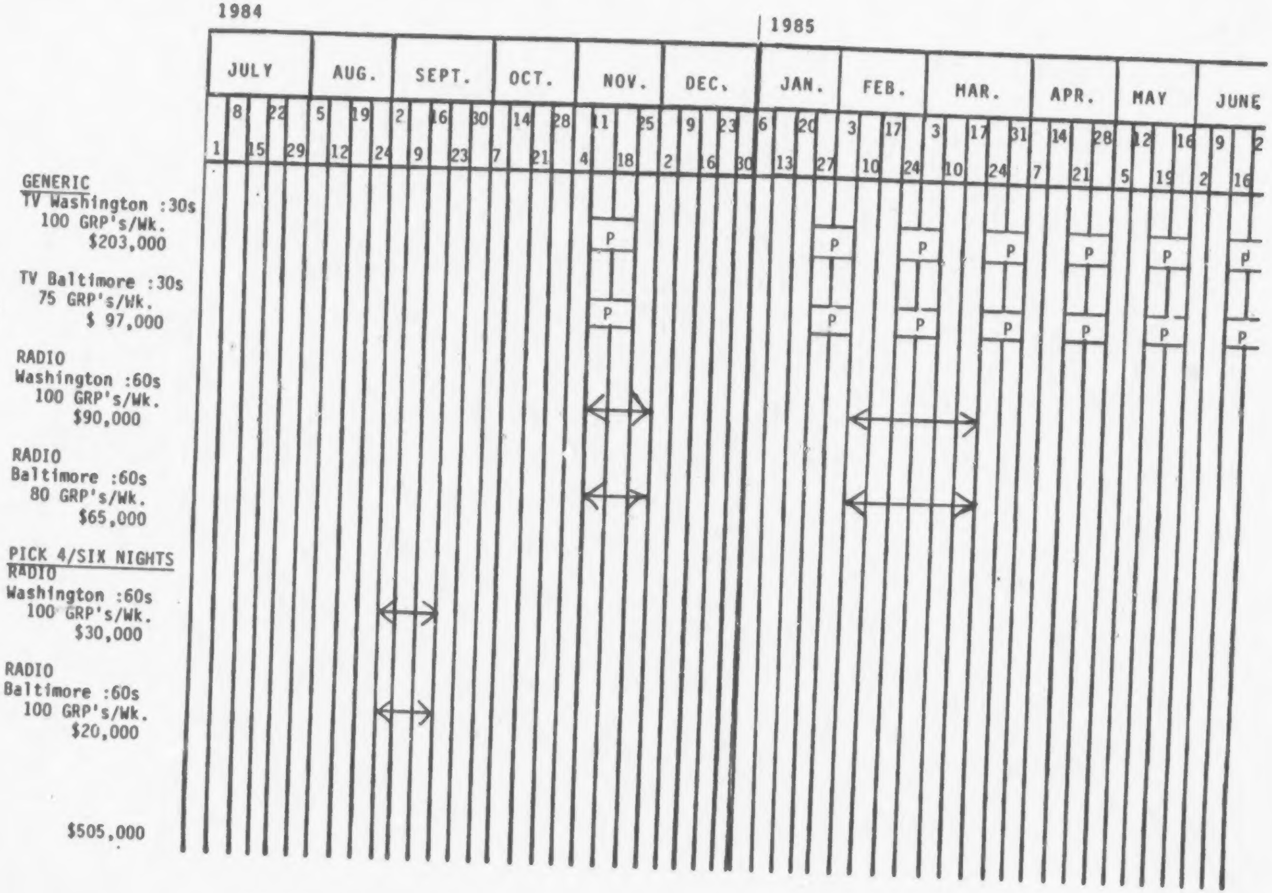
*Includes 50 Pts Station consideration-N/C on WJZ

**Includes $10,000 Spin Schedule-N/C from Baseball on WMAR

MARYLAND STATE L('ERY AGENCY FY 1985



*Includes 50 Pts Station consideration-N/C on WJZ


1984
1985
JULY
AUG.
SEPT.
OCT.
NOV.
DEC.
JAN.
FEB.
MAR.
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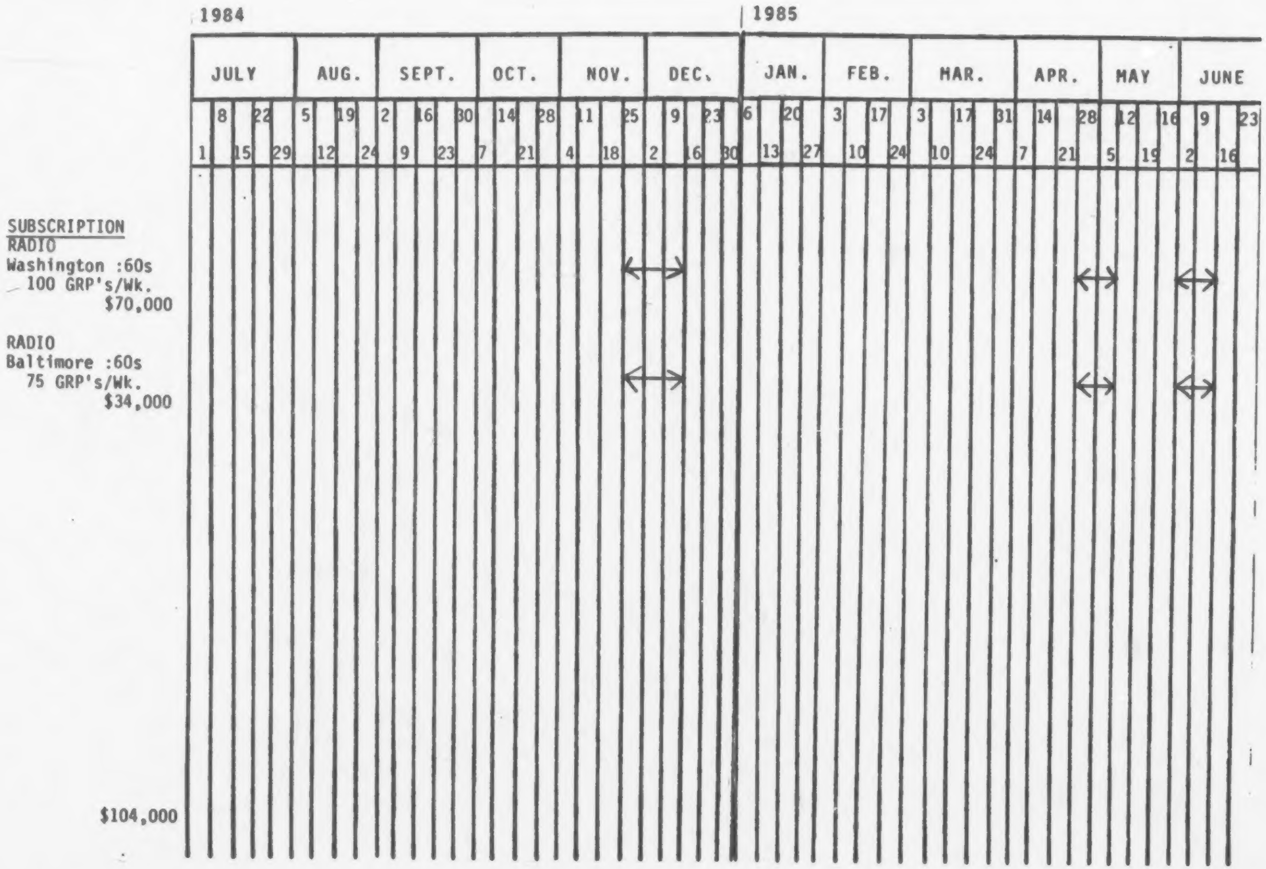
JUNE
1 8 15 22 29
5 12 19 24
2 9 16 23 30
7 14 21 28
4 11 18 25
2 9 16 23 30
6 13 20 27
3 10 17 24
3 10 17 24 31
7 14 21 28
5 12 19 16
2 9 16
P
GENERIC
TV Washington :30s
100 GRP's/Wk.
$203,000
TV Baltimore :30s
75 GRP's/Wk.
$ 97,000
RADIO
Washington :60s
100 GRP's/Wk.
$90,000
RADIO
Baltimore :60s
80 GRP's/Wk.
$65,000
PICK 4/SIX NIGHTS
RADIO
Washington :60s
100 GRP's/Wk.
$30,000
RADIO
Baltimore :60s
100 GRP's/Wk.
$20,000
$505,000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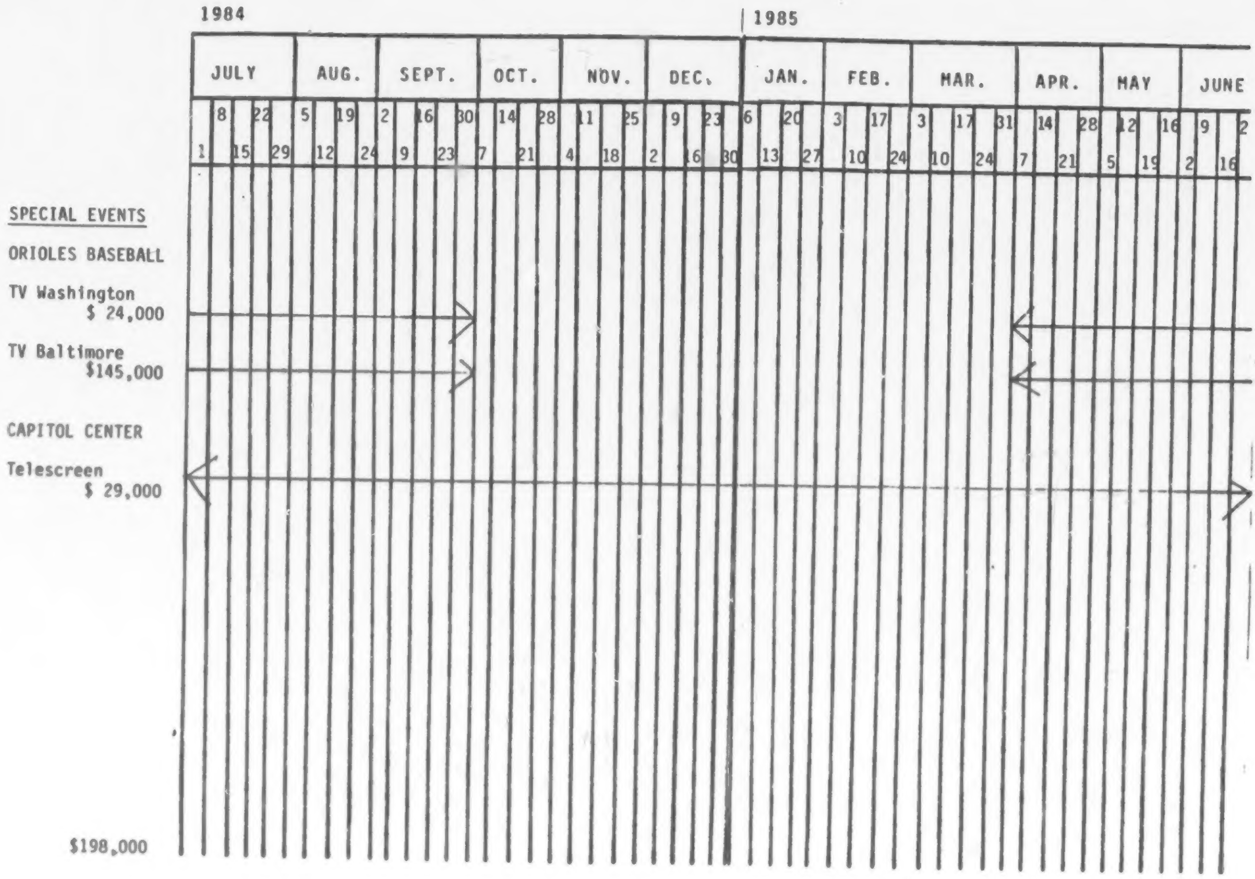
6 13 20 27
3 10 17 24
3 10 17 24 31
7 14 21 28
5 12 19 16
2 9 16 23
SUBSCRIPTION RADIO
Washington :60s
100 GRP's/Wk.
$70,000
RADIO
Baltimore :60s
75 GRP's/Wk.
$34,000
$104,000


1984
1985
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5 12 19 24
2 9 16 23 30
7 14 21 28
4 11 18 25
2 9 16 23 30
6 13 20 27
3 10 17 24
3 10 17 24 31
7 14 21 28
5 12 19 16
2 9 16 2
SPECIAL EVENTS
ORIOLES BASEBALL
TV Washington
$ 24,000
TV Baltimore
$145,000
CAPITOL CENTER
Telescreen
$ 29,000
$198,000

CONTINGENCY

TV LOTTO

$70,000

For additional TV
during weeks of
higher jackpots

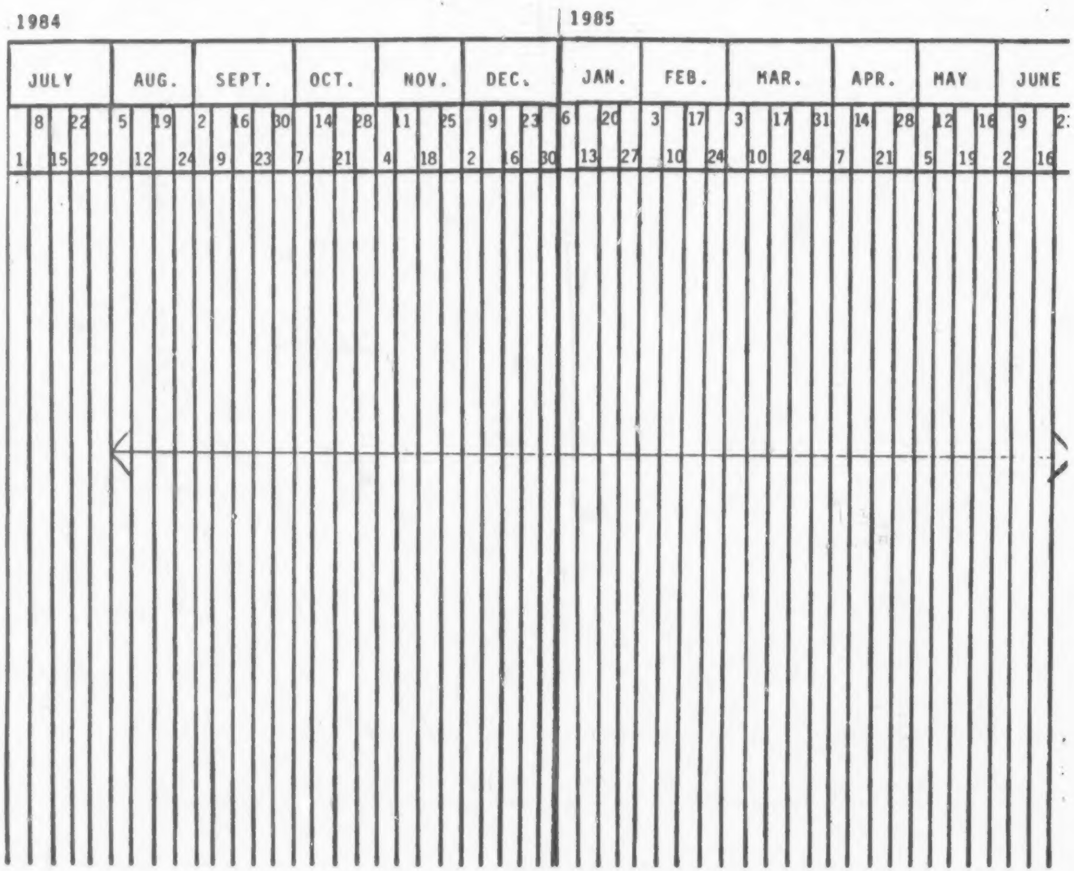
ETHNIC

$189,000

RESERVE $62,000

$321,000

Total $1,890,000



COMPARATIVE DEMOGRAPHICS

The New Jersey State Lottery began in 1971 and has operated the Pick 3, Pick 4 and Lotto games simultaneously since 1980, longer than any other state lottery. In 1982 the New Jersey State Lottery was selected by Public Gaming Magazine to effectively compare the demographics of various lottery products.

By reviewing the overall demographics of the state of New Jersey with those of Maryland, one will find several similarities.

	New Jersey	Maryland
State Population	7,397,200	4,270,600
Total Households	2,604,700	1,512,900
Persons Per Household	2.79	2.82
Median Education Level	12.1 Yrs.	9.1 Yrs.
Median Age	32.7	30.9
Median Household Income	23,000	22,942

No two states in the country are the same demographically and no one state is "typical" in all ways. However. New Jersey has a large number of similar features to other Northeastern states where most of the lotteries are currently operating.

New Jersey is also particularly similar to the larger Northeastern states where most of the lottery population resides.

The tables presented on the following pages are compiled in terms of the index of participation of various demographic groups in buying various lottery products based on the statewide percentage of occurrence of those demographic groups in the state. This means that the tables reflect how much participation comes from each demographic group after considering the number of people who actually play the games. While the percentage of distribution of each demographic group is unique to New Jersey, one can see how the different percentages for Maryland apply to basically the same demographic group of players.

Thus, in any given lottery game, if a group from New Jersey participates to a high degree, this may be indicative of the degree participation to the same demographic group in Maryland. This view is supported by a Public Gaming Magazine study of six other state lotteries where the overall results were basically the same.

ANALYSIS OF DATA

An index number of exactly 100 for a particular group and game means that the particular group participates in a game at a rate equal to that group's presence in the population. Similarly, an index above 100 indicates that the group involved participates in the game at a rate that is more than the group's presence in the population.

Index numbers above 100 highlight the groups that predominately participate in a given game.

It should be noted here that the distribution of demographic characteristics of the various games profile the shape of the lottery game player. They do not reflect the sales of the various games throughout the state or consider the locations of lottery terminals and accessibility.

HOUSEHOLD INCOME (IN 1980 DOLLARS)

	OVER $56,000	$34,000-$56,000	$23,000-$33,999	$18,000-$22,999	$11,000-$17,999	$ 6,700-$10,999	UNDER $6,700
NEW JERSEY POPULATION	6.1%	19.3%	26.3%	17.8%	9.8%	8.5%	12.2%
MARYLAND POPULATION*	8.4	15.3	21.5	13.8	25.6	9.6	5.9
GAME TYPE	PARTICIPATION INDEX						
PICK 3	71	82	92	104	116	124	125
PICK 4	75	90	99	104	108	110	109
PICK 6 LOTTO	83	98	104	103	100	98	96

*The figures for Maryland were obtained from the 1980 Census and do not reflect inflation adjustments. Therefore the Maryland figures do not correspond exactly to the income strata defined in the New Jersey study. The stratification for Maryland provided in the census is similar for comparative evaluation purposes only.

AGE

	18-24	25-34	35-44	45-54	55-64	OVER 65
NEW JERSEY POPULATION	15.1%	18.0%	18.4%	18.2%	14.5%	14.7%
MARYLAND POPULATION	19.2	23.5	17.1	14.4	13.0	12.8
GAME TYPE	PARTICIPATION INDEX					
PICK 3	105	102	94	95	102	105
PICK 4	99	100	96	98	103	103
PICK 6 LOTTO	96	101	99	99	101	101

SEX

	MALE	FEMALE
NEW JERSEY POPULATION	48.3%	51.7%
MARYLAND POPULATION	48.4	51.6
GAME TYPE	PARTICIPATION INDEX	
PICK 3	116	83
PICK 4	108	92
PICK 6 LOTTO	116	85

EDUCATION

	COLLEGE 4 YEARS OR MORE	COLLEGE 1-3 YEARS	HIGH S. 4 YEARS	HIGH S. 1-3 YEARS	ELEM. 0-8
NEW JERSEY POPULATION	11.8%	8.8%	31.9%	19.5%	28.0%
MARYLAND POPULATION	10.8	16.3	36.4	18.0	18.5
GAME TYPE	PARTICIPATION INDEX				
PICK 3	79	85	94	107	115
PICK 4	80	88	97	105	110
PICK 6 LOTTO	88	95	101	102	103

	OCCUPATION						
	MANAGERS/ PROFESSIONALS	CLERICAL	FARMERS	CRAFTSMAN AND FOREMAN	INDUSTRIAL WORKERS	SERVICE WORKERS	FARM WORKERS
NEW JERSEY POPULATION	24.9%	27.8%	0.3%	13.7%	18.5%	10.7%	0.3%
MARYLAND POPULATION	20.7	27.7	0.4	10.1	13.8	10.4	0.4
GAME TYPE	PARTICIPATION INDEX						
PICK 3	71	98	48	94	119	117	60
PICK 4	85	99	61	100	111	109	75
PICK 6 LOTTO	94	99	84	105	103	101	93

MARYLAND STATISTICS BY COUNTY

1) Population
2) Effective Buying Income
3) Retail Sales

POPULATION DATA

County	Total Population (000)	% of State	Median Age of Pop.	% of Population by Age Group: 18-24 Years	25-34 Years	35-49 Years	50 & Over	Households (000)
Allegany	79.7	1.8	35.3	12.4	13.2	16.5	33.9	29.7
Anne Arundel	384.9	9.0	29.8	13.7	18.5	19.8	20.5	128.9
Baltimore	661.3	15.4	32.9	12.8	17.6	18.2	28.0	247.0
Baltimore City	763.9	17.8	31.2	13.7	16.7	14.9	28.8	277.7
Calvert	37.4	.8	29.4	10.0	18.0	18.1	21.8	11.8
Caroline	23.8	.5	32.7	10.8	15.2	16.4	30.2	8.6
Carroll	101.8	2.3	30.9	11.3	17.6	19.9	22.8	32.9
Cecil	61.9	1.4	30.1	11.2	16.4	18.2	23.8	20.3
Charles	77.8	1.8	27.3	11.4	17.7	20.1	16.2	23.3
Dorchester	30.9	.7	35.0	10.8	14.5	16.2	33.8	11.5
Frederick	120.8	2.8	29.9	12.2	18.7	18.4	22.0	39.9
Garrett	27.5	.6	30.5	11.6	15.3	16.4	26.7	9.3
Harford	151.4	3.5	29.3	12.3	17.8	20.4	19.4	49.3
Howard	129.4	3.0	30.1	9.9	20.7	23.0	16.8	45.1
Kent	16.8	.4	34.0	14.0	14.0	16.3	32.3	6.3
Montgomery	589.2	13.7	32.5	10.9	17.9	20.8	24.8	217.0
Prince George's	664.7	15.5	28.3	15.3	20.1	19.1	17.4	230.0
Queen Anne's	27.0	.6	33.0	10.8	16.1	17.4	29.4	9.4
St. Mary's	62.4	1.4	26.8	14.5	18.1	17.0	18.2	20.1
Somerset	19.3	.4	33.5	13.3	13.6	15.0	32.9	6.8
Talbot	25.9	.6	37.3	10.3	14.6	16.1	36.4	10.3
Washington	114.4	2.6	32.3	12.7	16.5	17.4	28.1	41.3
Wicomico	66.3	1.5	31.8	13.5	16.3	17.0	27.9	24.0
Worchester	32.1	.7	33.9	11.7	15.5	16.6	31.6	12.4
Total State	4,270.6	100	30.9	12.9	17.7	18.4	24.3	1,512.9

EFFECTIVE BUYING INCOME

County	Total EBI ($000)	Median Hsld. EBI	$10,000-$14,999	$15,000-$24,999	$25,000-$49,999	$50,000 & Over	Buying Power Index
Allegany	493,413	15,357	17.0	33.1	17.0	1.2	.0293
Anne Arundel	3,086,975	21,612	12.3	34.7	34.3	3.8	.1645
Baltimore	7,088,360	25,465	8.2	29.7	43.9	7.7	.3582
Baltimore City	5,408,151	16,829	15.5	29.3	23.5	3.1	.2735
Calvert	221,926	16,642	16.3	31.7	21.3	2.8	.0109
Caroline	142,304	14,411	18.0	28.9	17.1	1.9	.0084
Carroll	709,088	19,952	13.6	34.0	30.1	2.6	.0363
Cecil	453,465	18,919	15.6	36.0	26.6	2.5	.0244
Charles	654,589	26,013	8.2	24.3	44.4	8.4	.0312
Dorchester	198,310	14,760	16.8	27.6	19.6	2.1	.0105
Frederick	942,109	21,447	12.3	30.2	34.3	4.9	.0504
Garrett	145,434	13,398	19.2	28.1	14.5	1.4	.0091
Harford	1,255,809	22,367	12.2	31.3	37.5	4.3	.0597
Howard	1,329,306	27,522	8.0	25.0	48.6	8.6	.0590
Kent	129,605	16,656	15.7	25.1	25.7	4.2	.0067
Montgomery	8,114,604	33,676	5.9	17.6	46.8	21.8	.3598
Prince George's	6,708,402	27,140	8.3	25.9	48.1	8.1	.3330
Queen Anne's	191,901	17,262	13.7	26.5	25.7	4.5	.0090
St. Mary's	417,053	16,711	19.2	30.4	23.6	2.7	.0207
Somerset	121,258	11,508	17.1	22.6	14.9	.9	.0058
Talbot	219,011	16,580	16.7	26.4	22.6	5.5	.0129
Washington	840,971	18,479	14.1	31.9	26.7	3.0	.0484
Wicomico	480,999	17,578	14.7	29.2	25.2	3.1	.0287
Worchester	223,966	15,105	15.0	26.0	20.7	3.6	.0163
Total State	39,577,009	22,942	11.1	27.7	36.6	7.6	1.9667

RETAIL SALES

County	Total Retail Sales ($000)	Food ($000)	Eating & Drinking Places ($000)	Drug ($000)
Allegany	358,505	88,018	29,909	47,411
Anne Arundel	1,914,839	477,652	177,019	57,035
Baltimore	4,394,927	1,111,798	356,648	120,039
Baltimore City	2,566,037	567,633	289,177	105,031
Calvert	79,380	28,903	7,933	3,687
Caroline	93,642	29,127	2,957	2,955
Carroll	349,953	96,876	22,061	16,721
Cecil	273,636	56,267	21,757	5,988
Charles	287,176	70,302	23,733	25,601
Dorchester	107,917	28,686	8,862	4,202
Frederick	575,580	111,679	41,105	18,716
Garrett	110,593	32,457	4,082	3,692
Harford	540,343	148,789	49,702	23,957
Howard	521,571	121,052	52,920	12,942
Kent	75,889	25,548	6,536	3,166
Montgomery	3,767,032	794,998	286,475	145,792
Prince George's	3,829,884	833,452	277,510	168,465
Queen Anne's	70,699	18,431	8,048	1,111
St. Mary's	171,674	41,916	14,577	6,001
Somerset	37,170	11,816	3,738	881
Talbot	180,972	43,212	15,175	6,794
Washington	618,894	120,566	37,100	19,728
Wicomico	391,411	89,924	28,745	11,727
Worchester	279,061	71,094	47,565	8,728
Total State	21,596,785	5,020,196	1,813,334	792,589

Sample Creative

Television Storyboards

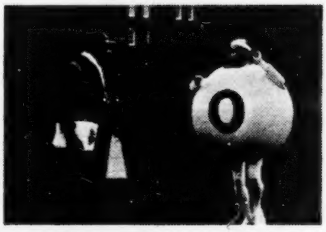
1. Ping Pong I
2. Ping Pong II
3. Smile-Ectomy
4. Come On and Play

Newspaper Print Ad

1. Education/Community Service

MARYLAND STATE LOTTERY

"PING PONG I"



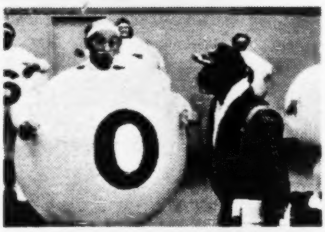
ANNCR: We're taking you behind the scenes of the Maryland State Lottery's Ping Pong Ball Training Center.

CAPT: What's your problem?

"0": No problem, sir.

CAPT: Fall in and sound off.

ANNCR: Only the best, well-rounded ping pong balls are good enough for the Numbers Game.

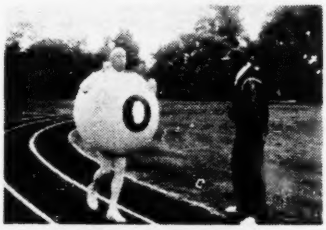


ANNCR: Here at the Ping Pong Ball Training Center, the standards are high.

CAPT: It's going to be back to Bingo for you if you don't pick it up.

ANNCR: So remember,

ANNCR: It's no ordinary ping pong ball that make it to the Numbers Game.



CAPT: Sorry son, it's back to Bingo for you.

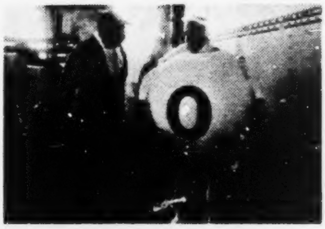
"0": No, not Bingo.

ANNCR: The Numbers Game. It's a ball.

CAPT: You just didn't cut it.

MARYLAND STATE LOTTERY

"PING PONG II - PICK FOUR"



COACH: Zero.
I'm giving you another chance.
The Maryland State Lottery has
a new game called Pick Four.

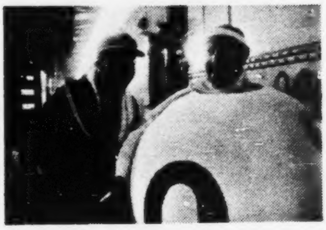
ZERO: Pick Four?

COACH: That's right. I know you can bounce back.

ZERO: Taxi!

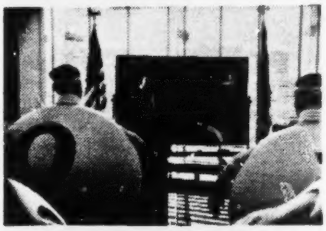
COACH: Listen here. The Lottery's new Pick Four Game is played twice a week. Now a player can pick any four digit number to play.

More ways to play and more numbers mean bigger cash prizes.



COACH: What do you say, Zero?

ZERO: Come on and play. Come play the Maryland Lottery. Your height, your weight, your license plate...



V.O.: Play the Lottery's new Pick Four Game. It's a ball.

MARYLAND STATE LOTTERY

"SMILE-ECTOMY"

WIFE: Doctor, please. He won't snap out of it.

DOCTOR: Quick, let's get him upstairs.

DOCTOR #1: Has he experienced any shock or trauma lately?

WIFE: Well, he did win Lotto.

DOCTORS: (In Unison) Hummmm! Smile-itis!

WIFE: What's that?

DOCTOR #2: Smile-itis is a smile that strikes Million Dollar Jackpot winners in the new Lotto Game. (Serious)

DOCTOR #1: There's only one thing to do.

WIFE: Yes?

DOCTORS: Smile-ectomy.

WIFE: Harold.

DOCTOR #1: I'm sorry, ma'am. We've done all we could.

DOCTOR #2: But this man is going to smile forever.

ANNCR: Play Lotto. It's a big smile.

MARYLAND STATE LOTTERY

"COME ON AND PLAY"

LEAD: Come on and play.
Come play the Maryland Lottery.

CHORUS: Your chance to play is here today.
And if you win start celebratin'.

LEAD: Come on and play.
Come play the Maryland Lottery.

CHORUS: If you want to win, come on get in,
start reachin' for the sky.
Come on and play it's here to stay,
the Maryland Lottery.

CHORUS: Come on and play.

LEAD: Come on and play.
Come Play the Daily Numbers Game.

CHORUS: Your height, your weight, your
license play.
Box any three or play it straight
now.

LEAD: Come on and play.
Come play the Maryland Lottery.

CHORUS: Come on and play.

LEAD: The Maryland Lottery

CHORUS: Come on and play. Come on and
play come on.

LEAD: The Maryland Lottery.

CLOSE YOUR EYES AND READ THIS AD.

You've just experienced a part of Tiana's life. Tiana's blind. She can't read newspapers, play video games or drive a car. But with the training and education she receives from The Maryland School for the Blind, she leads a meaningful and productive life. The Maryland School for the Blind is just one of the educational institutions to receive financial assistance from the State Department of Education. In 1984, the General Fund will contribute over $11 million dollars in aid to the State Department of Education. The State General Fund continues to provide over 80% of the operating costs of The Maryland School for the Blind.

In 1984, the public education agencies will spend more than 35 cents of every General Fund dollar and almost 30 cents of every dollar appropriated. Sixty nine percent of these funds is budgeted to the State Department of Education to be used primarily for the support of elementary and secondary education.

Public higher education in Maryland is provided directly by the State at the University of Maryland, Morgan State University, the six state universities and colleges, and St. Mary's College of Maryland.

We hope this opened your eyes to a part of what the General Fund* contributes to public education in the State of Maryland.

THIS MESSAGE WAS PROVIDED BY THE MARYLAND STATE LOTTERY.

[illegible]

*[illegible] Lottery contributed over [illegible] million dollars to the Maryland General Fund in Fiscal Year [illegible]

Reference sources used in preparation of this report include Public Gaming Magazine, Gaming Business Magazine, Sales and Marketing Management Survey of Buying Power and the U.S. Census.

Senator **Durenberger**. Our second panel includes two witnesses who have done a great deal of research on State lotteries. One is Gerard Fulcher, the executive director and counselor for the Delaware Council on Gambling Problems. Mr. Fulcher has served on the panel as an educator, and peer level counselor in the field of pathological gambling for 7 years.

The other is Mr. Larry Braidfoot, who serves as general counsel and director of the Christian Life Commission of the Southern Baptist Convention.

Prior to that position, Mr. Braidfoot was a professor of religion and philosophy at the Dallas Baptist College in Dallas, TX.

We are pleased to be able to call on your considerable expertise in this area, and I thank you for taking the time to be here, and for this panel, the previous panel and the succeeding panel, I should indicate that the prepared statements of the witnesses will be printed in the record in full, and you may now proceed to summarize your testimony.

Mr. Fulcher.

TESTIMONY OF GERARD FULCHER, ON BEHALF OF THE DELAWARE STATE GAMBLING COMMISSION; AND LARRY BRAIDFOOT, GENERAL COUNSEL AND DIRECTOR OF CHRISTIAN CITIZENSHIP DEVELOPMENT, CHRISTIAN LIFE COMMISSION, SOUTHERN BAPTIST CONVENTION

Mr. **Fulcher**. Thank you very much, Senator.

I would like to express my gratitude for the opportunity to be here that some of us have been trying for in this field, some objective oversight or inquiring into some of the whys and wherefores of State lotteries.

The opponents of gambling like ourselves, unlike this hearing, that has been very well organized, usually get shifted back to about 4:30 in the afternoon to make sure that the attention level is at its lowest, and I am very grateful that that did not happen here.

The reason why this side of the issue does not get a hearing is that most State legislators are pursuing the glittering gold of the lottery dollar with all the intelligent foresight of the California gold rush.

We have done an objective study on this issue. There is only one way to study this issue. It is not on reading prolific reports that were done by some academic philosopher about why or why not people may like to gamble in life. You get down in the trenches. The study that I have submitted, we have interviewed 1,504 people right at the lottery machines while they were making their bets. I have all the answers, very frankly, in that study that you have been asking for in the last hour or so.

It is no longer a question of opinion. The jury is in on State lotteries. The way I express it may be a little different. I think State sponsoring of lotteries is nothing but institutionalized fraud, and State lottery directors are nothing but legalized bookmakers, and I think I can backup that statement with some of the facts we have found.

One of their arguments is that if things are hard to enforce, let's legalize it. Well, we might as well do it with organized crime. We haven't been too successful there, with drugs, and some of the other areas that you mentioned.

Robert Blakely, the Warren Commission Chief Counselor, also was in part of that study that has been quoted in the National Commission, and he read our report, and said it is perfectly in concord with what they found nationwide, even if it did not make their report, because that is not what they were out to seek.

People will decide the issue, as our previous speaker said, but I maintain they have been deciding the issue without the information. The information is there and, as I said, the jury is in.

They give you five basic arguments, Senator, and I would just like to mention what they are then try to analyze them a little bit.

They say State lotteries will make a prolific amount of money for the State. They say virtually everyone is gambling anyway, so why not channel it legally. They say that lotteries are supported by a broad spectrum of people who will bet a little bit of money. They say that it decreased illegal gambling. They say there is no connection with crime, and they say there is no relationship to compulsive gambling.

If they are right, then I will get up and leave now. The fact is that they are wrong on every one of these areas.

Let's talk about profits, let's talk about what they call profits. They will tell you to measure the amount taken in, subtract the money you give to win, and subtract the overhead, subtract the money you give back to agents for being the middle man in this operation, and that is what they would like to label as profit.

But you have got to do a lot more subtracting. If they want to consider this as a business, then you subtract all the costs related to that business. That means you have to subtract the dollars and cents cost of criminal activity directly related to lotteries, and we know there have been many: A 30 percent in bad checks cashed in areas directly due to lotteries, in certain areas that were surveyed.

We have the corruption that has been tied to the lotteries in several States, including a television person and a lottery official in Pennsylvania, indicted, convicted, and jailed, and on and on and on, the criminal activities that are directly related to that crime.

I am not saying that lotteries cause all crime. I am saying just deduct the cost of particular crimes. The 27 agents in our State who have been convicted of crimes related to the lottery, illegal lottery operations, some of them becoming bookmakers because they realize that doing it legally they only get a nickel on the dollar, but if they pull the same guy aside, a regular bettor, they can get the tntire dollar on the dollar, and we have had instances of lottery agents who have become bookmakers as a direct result of being exposed to the lotto system.

So before we talk about profits, I maintain, anyway, that State lotteries, or States brag about profits from the lottery is like the funeral industry bragging about profits from an epidemic. We just haven't realized yet that you don't solve fiscal problems by gambling. It is like trying to save the *Titanic* by rearranging the deck chairs. It doesn't work, it wasn't meant to work, and that's not what it is all about.

Lotteries do not raise terrific amounts of money when you subtract all of the costs involved. In most States, it produces less than

1 percent of the State's budget. I would hardly call that a means of fiscal responsibility and enhancing the State coffers.

Also, you mentioned the fact that 15 percent of the money, or less than that, actually goes to the State, anyway, of the lotteries.

But I maintain, let's look at the other side. Where does this money come from. Everybody tells us where it goes. Nobody bothers to tell us where it comes from. You have a State-sponsored, institutionalized structure which takes money grom 99 percent of the people who indulge in that State sponsored activity. I hardly call that a positive means of raising funds for a State.

The State cannot succeed unless 99 percent of the people who invest in this business, we'll call it, since they have decided to call it that, must lose personal dollars in order for the State to say the lottery has been successful.

Senator DURENBERGER. That is true of any tax.

Mr. FULCHER. Yes, that is right, it is true of any tax but, as I say, I want to get that on the record. I don't think you would call it profit, though, when you talk about taxes. They call it profit. These dollars do not just appear out of the air. These are hard-earned and/or stolen dollars which we will get to later when we talk about the crime element, but that is true of any tax, so, therefore, let's make sure that it gets in on this particular one.

They say virtually everyone is gambling anyway in some form or other, or many, many people are, millions are, so therefore let's channel it legally.

The same commission report that they like to quote, about how 88 million people have no objection to gambling, and again it depends on how you do studies before I think they are valid to come up with a conclusion like that.

But let's take another statement from that same commission report that they don't like to quote; namely, "State lotteries have been notoriously unsuccessful in winning over the already illegal gambler."

Therefore, in order to perpetuate their bureaucracy, they have had to create a new clientele of gamblers to partake in their venture on a regular basis. The State has literally had to create new gamblers. Our study shows that 72 percent of the people who play the lottery regularly—and we estimate regularly to be three or more times a week—72 percent of them virtually never gambled before it was legalized.

So one of their basic premises, that they are just giving the people already gambling an opportunity to do it legally, is a false premise.

The other reason is obvious, also, about "Why advertise?" Why spend hundreds of millions of dollars nationwide to advertise an activity, when all advertising is based on the premise of encouraging, coercing, or any other descriptive adjective of that nature to get people to partake in that product. If this is such a popular venture then we don't need all the advertising that goes on. The advertising is for one reason, to create and perpetuate a new, growing clientele for the consumer product.

They even talk about, "We stress the area of fun." Well, we pursued that, and 82 percent of the—excuse me, 65 percent of the people who indicated—I am sorry, I was right the first time—82 percent of the people indicated their reason for playing the lottery was not for fun, it was to make money. That belies a little bit the premise that it is based on fun. Not according to the players it is not.

If, indeed, they try to avoid the word "gambling." Why? If it is not bad, why do they have to avoid it? And they have had lottery commission meetings, for example, where they discussed, "Try to avoid the term gambling when you're talking about the lottery."

That is what it is. If it is not, if it has got a new respectability now with the legalization, why are they trying to avoid the word "gambling" and trying to substitute the word "fun?"

How good is their advertising? 82.9 percent of the people did not know—did not know—the odds against a straight numbers bet, winning a straight bet. So their advertising—their clientele is either very stupid, or their advertising is very deceptive, and you know where I stand on which of those two alternatives.

And 94 percent of them did not know the odds against winning a boxed number; 98.6 percent of them did not know the odds against winning the instant lottery, and I remind the Senator again that this was done of 1,504 lottery players right at the machine while they were gambling, or right after it.

The talk about, as I say, the business, it's a consumer product and, as I said before, how can we say we are offering a consumer product to people who are going to lose money by investing in that product? I refer you to a booklet by Mr. Roy Cohn—not the famous one of McCarthy, but another Roy Cohn—who surveyed the million dollar winners 5 years after they won the million dollars to talk about the funds; 78 percent of the people surveyed said winning the million dollars ruined their lives, and they went into explanations of divorces, lack of appreciation for the work ethic, and all the other things that come, perhaps, when we make things too easily in life, which I don't think we were meant to make it in life by winning State lotteries.

We were meant to invest time, talent, and energy into success, not by picking a lucky number.

They also say that the lotteries are supported by a broad spectrum of people betting a little bit of money. This study absolutely denies that, and proves the opposite. Like any product, it has a targeted group, but perhaps the best way to indicate what the targeted group is, do what I did, in any State that has a lottery.

Take a map of that State, break it up into the demographics the U.S. Department of Labor has indicated, in various socioeconomic groupings, highest, middle income, upper middle income, lower middle income, lower socioeconomic group, and you will find the following breakdown in many States, as we did in ours: Not a single lottery machine placed in the highest income area.

Since my study, they changed that. They put two of them in so I could no longer say that. However, it is not used, and cobwebs are growing between the keys of the lottery machine.

The second lowest group, the upper middleincome group, has only 20 percent—15 percent—of the lottery machines. The lower middle-income group has 20 percent of the lottery locations, and the lowest socioeconomic group, inhabited primarily by the poor, officially poor people, minority groups for the most part, they have

65 percent of the lottery machines that are purposely placed, and lest they forget what they are supposed to do with those machines, we found a doubling of advertising by the State lottery on the day the welfare checks arrived.

Yes; they do have a product, and the product is targeted toward the particular clientele, and they take every means possible to make sure that that particular clientele to which that product is geared are going to know about it.

So on the day welfare checks come, they double the advertising.

To give you an example of how exactly where in the study we knew it would be unfair to call a lottery machine placed in the DuPont Building as a poverty area machine merely because it was in the inner-city area, so our researchers went out and for 3 days stood at that machine, questioned people and so on, and they discovered even a strange phenomenon that we didn't expect.

Between 8:30 in the morning and 5:30 in the afternoon, the DuPont community, if you will, from secretaries to executives, bet their numbers 50 cents or a dollar. They averaged $5 a week.

At 5:30, the building shut down except for the black and Puerto Rican janitors to come on duty, and from 5:30 to 6:30, they are lined up two abreast, averaging $31 apiece each at that lottery machine.

So here during the day, people who can afford it betting an average of $5 a week. People who can least afford it betting $31 a week at the same lottery machine. So it was rather an exact study.

The highest person we found in the State of the 1,504 people in the study was a Puerto Rican gentleman on welfare, admittedly so, who bets $240 a week on the State lottery.

So, as the difference as to who is playing the lottery and who is supporting the lottery, when you get up in that $10 million, $40 million bracket, as happened recently, lots of people will jump into that line who were never there before. The lottery is supported by a small group of people betting a regular, large amount of money on a regular basis.

Senator DURENBERGER. Are you getting near the end of your presentation?

Mr. FULCHER. Yes; I am. When your assistant said we had 8 minutes, I thought he said 8 hours, and I said I should be able to get it in by then.

Senator DURENBERGER. Can you cut it in half? [Laughter.]

Mr. FULCHER. The precedent of decreasing illegal gambling, very quickly. It not only doesn't decrease, but it increases it, and it is the following logic. You will never be competition for the illegal numbers. In fact, they will always beat you out as competition. State lotteries pay 500 to 1. The bookmaker pays 600 to 1. State lotteries do not five credit. The bookmaker will. The lotteries take taxes, and I never met a bookmaker who sent you a W-2 form, even in my 15 years of neurotic, sick, pathological gambling that I indulged in from 1952 to 1967. The bookmaker was always a better deal than the State could ever be.

Also, as I said, they are creating new bookmakers, which is another form of illegal acts. But there is an insidious illegal activity going on in connection with the State lotteries.

Our lottery director bragged about on the TV show one time, which he regrets to this day, that he heard that—he was asked by the interviewer, "Is it true that the illegal bookmakers in your area will lay off their bets with the State lottery?"

Now, laying off bets means the following: If you get too many bets on a given number, it could destroy you if it hit, and you look around for somebody to lay it off with. It is a safety valve that keeps organized crime bookmaking operations functioning, and not going out of business. We found very widespread incursions into that. Namely, organized crime supported bookmakers who, when they got hit too heavily with one particular number would lay off their bets on the State lottery.

So here we have the State lottery acting as a safety valve and a positive force to perpetutate an illegal activity. That is hardly decreasing illegal gambling.

The point about no crimes, or at least the loansharking, extortion, narcotics, and prostitution will increase around legalized gambling in general. Certain of those crimes will increase around lotteries; namely, bad check cashing on the part of people who get too heavily involved and other minor acts of that nature which are concerned with that.

The last point, no relationship to compulsive gambling. Well, now you are in my field. I was once, for 15 years. I was a New York City policeman when I started my compulsive gambling and went as high as a college vice president, and still being a sickie at that particular time.

It does have a relationship. The access can lead to excess. There are too many examples. There has been a 300-percent increase in Gamblers Anonymous groups in the last 10 or 15 years, which is the exact timeframe that legalized gambling has made its inroads.

Somebody said one thing we learn from history is that we don't learn from history. We have been through this before. This is our fourth attempt to legalize gambling. Inevitably the cycle runs. It is winked at, it is condoned, it is legalized, the inevitable negative corruption and so on will take over and become so pronounced that the people will vote prohibition again. Why must we keep repeating the historical cycle of this event?

It is ironic that States do not promote and encourage the use of alcohol of drugs. Yet, they give hundreds of millions of dollars for treatment of that disorder. On the other hand, they do promote and encourage gambling, and don't give a single dime, with the exception of four States in the country.

The whole idea of trying to create a new clientele through the advertising, and the compulsive gambling that that inevitably increases—the very jingles are aimed at kids, and women especially will become compulsive gamblers, an increase of over 60 percent in the last 5 years, will tell you a story of being directly related to the lottery. That was their first incursion into gambling.

The way the kids will snap up to attention when the jingles come on is another example. I have five children under the age of 6, which is another addiction we can talk about in some future period, perhaps, but they will prick their ears when that happens.

The lotteries are causing more problems than they are solving, Senator, and I think an indepth investigation into just how bad those problems are is in order.

Senator DURENBERGER. Thank you very much.

Mr. Braidfoot?

Mr. BRAIDFOOT. Thank you, Senator.

The topic on which I have been asked to speak is moral arguments against the State lottery. I would like to make a couple of prefatory statements about the issue of morality given the widespread discussion about the appropriate role of religion in politics in our society today.

Laws of our Nation and its States reflect a moral consensus about what values our society seeks to embody. There are many sources of moral influences which shape this consensus. Some are religious, some are philosophical. Most pervasive is probably the nonreflective sense of morality which characterizes the common man or woman.

All claims of moral insight must be submitted to the test of common experience, the experience of our people and of our Government.

If the laws and actions of government are not able to convince the American voter that those laws and actions do in fact provide for the common defense and promote the general welfare, they will not long endure either as prohibitions or as permissions.

Such is the case with the laws surrounding State-operated lotteries. These laws are not amoral. They embody certain values which must be continually examined by the experiences of those States which have them. The most widely publicized aspect of their operation is the financial dimension, the generation of revenue for the State.

It now seems clear, however, that we have ample experience to identify other characteristics which must be considered. Should a State establish a lottery that constitutes a regressive source of taxation? I would argue that it should not.

Evidence from objective studies has constantly indicated that State-operated lotteries are regressive as forms of raising revenue. It was my understanding that Prof. Daniel Suits of Michigan State was to be one of the persons who would testify. I would acknowledge his work as the most authoritative which I have found and on a number of occasions he has successfully demonstrated the regressivity of the lottery.

Even the statements and studies conducted by Scientific Games, Inc., one of the leading suppliers of lottery products, give some indication that this regressivity is known to be so. The description of the games of the State lottery, which were shared by Mr. Bower in his testimony, is familiar because it coincides with a speech he gave in 1982 in Las Vegas entitled, "Video Lottery Devices: A New Generation of Players."

In that particular speech, he referred to the player selection game as one which "primarily attracts the low-income, minority market." A "player is mostly likely to be a non-white male employed as a laborer or service worker."

The player selection game was indicated by Mr. Bower as generating approximately two-thirds of the income of the State lotteries.

In some States, such as, I believe, New Jersey, I believe it is as high as 90 percent.

Studies such as "Gambling in America," and I would call your attention to some of the quotes in the conclusion by Mr. Moran and by Mr. Ritchie, the chairman and executive director, as well as the study of Dr. Mark Abrahamson demonstrate this regressivity beyond any reasonable doubt.

Should a State lottery establish a lottery that will knowingly have a disproportionate appeal to ethnic minorities?

I would argue that it should not.

This characteristic of State-operated lotteries has not adequately been researched. Yet the evidence that I have observed indicates to me that there is both a special effect on communities of ethnic minorities, especially blacks and Hispanics, and that this dramatic appeal is recognized by the operators of the lotteries, including such firms as Scientific Games, Inc. I would call your attention to the study by Dr. Koza, which indicated that blacks and Hispanics in New Jersey played the lottery with approximately twice the frequency of the population as a whole, and that in the leading neighborhoods playing the player selection games, the leaders consisted highly of black and Hispanic neighborhoods.

Should a State establish a lottery that will not reduce illegal gambling but in fact may stimulate it?

One of the main arguments advanced for the legalization of gambling, in addition to the generation of revenue, is the claim that legalization will dramatically reduce illegal gambling and thereby cut off ties to organized crime.

Even if corruption and fraud are eliminated in the operation of the legal lottery, a continuation and even refinement of organized crime's involvement in illegal lotteries seems apparent.

I call your attention to statements in the testimony regarding my interview with Mr. Sean McWeeney of the FBI. I further call your attention to the letter from Attorney General Smith of the State of New Hampshire recommending against doing business with Scientific Games, predicated upon an investigation conducted of the Bally organization, the parent corporation of wholly owned Scientific Games.

Numerous sources from law enforcement circles dispel the contention that legalization will reduce illegal gambling. Mr. Austin McGuigan, of the State of Connecticut, chief State's attorney, has not only prosecuted the fixing of several instances of the State lottery, but shared with me the comment that above the door should be posted the sign: "The State of Connecticut does not guarantee the integrity or honesty of this game."

Should a State establish a lottery that will contribute to growth in the area of problem gamblers?

I would suggest some analysis I have done of a series of articles that Mr. Koza has printed in Public Gaming magazine about a study done in New Jersey.

In that State, there were four different games currently being played: The instant game, the Pic 4, the Pic 6, Pic 3. Mr. Koza identified the percent of money generated by each form of the lottery for the State, and indicated the number of the percentage of the adult population which consisted of regular players.

Usually, that kind of information—the player of the Pic 4 game, the 14 percent of the adults who played it with regularity spent an average of $125 a year on the game. The player of the Pic 3 game, the 4.7 percent of the adults who played the game daily averaged spending $902 a year on the game alone.

There is a high incidence of correlation between those who play one game and the other games. The study that Koza did indicated that somewhere between 45 and 75 percent of the people who play one game played another game as well.

I am not sure where you draw the line on a compulsive gambler, but when you start approaching the $900 per year level on playing one game in a State where the median family income is approximately $32,000 for a family of four, you are reaching a very significant percentage of the income.

Thank you, Senator.

Senator DURENBERGER. Gentlemen, you both have done an excellent job of going through the ramifications of this issue in its moral, sociological, and other respects.

I am wondering if you can draw any kind of a line for me between gambling and winning. I have watched my youngsters grow up on what I guess are commonly called video games. First it was the pressure on the parent at Christmas 6 years ago, 8 years ago, whenever it was—I lose track of time—to get some kind of a gizmo that played games off the TV set. The kids would sit there and play video games with each other. Obviously that is obsolete, and has been replaced by a variety of other things that stimulate a sense of winning something.

This is nothing new in our society, nor is gambling anything new. As I watch the products that are being used today for both winning and gambling, I wonder if you can give me an idea of whether I have any reason to worry—if there is a blurring here between gambling and winning.

Mr. FULCHER. The studies in the field of compulsive gambling, especially, are about where alcoholism was about 40 years ago. We are really in its infancy, and the minimal studies that have been done, I can only apprise you of the facts I know about it.

One psychiatrist who was an expert in treatment of compulsive gambling left the field in order to study the psychological effect of video games upon teenagers, because he felt there was a correlation and decided to devote himself strictly to that.

I can tell you that about 80 percent of the people in Gamblers Anonymous, the thousands of them that I have met, will admit to starting their first compulsive gambling thinking on the old slot machines—on the old pinball machines—where it is the same kind of thing.

Lately, we have noticed instances, since I am in the counseling business, of parents worried about children who would bet excessive amounts of money on the outcome of video games, one even stealing a $25,000 coin collection to both invest in playing the game as well as pay off gambling debts incurred by incursion into the game.

So those are the only facts on the issue personally I know. Also, over 60 percent of compulsive gamblers had an initial big win that gave them an undue optimism about the ability to win regularly, and that also could play into that, about the idea of winning and gambling.

Gambling is endemic to human nature. We know that. But it is the negative side of human nature. We try to eliminate the gambling at street crossings by putting up red and green lights, and so on.

Senator **Durenberger**. I raise these questions because I am curious to know where all this is heading.

Mr. **Fulcher**. We are afraid of where it might be heading, Senator.

Senator **Durenberger**. Yes, particularly when you tie it in with our need for revenue. Once education or handicapped minorities, or some other well-defined need is identified with this source of revenue, it is going to be very hard to get rid of this as a source of revenue. When they get the revenues up to $250 million, $500 million, or wherever it is going in Maryland, all of a sudden you can't get rid of it.

Mr. **Fulcher**. Misery is working in our favor. Unfortunately, misery will become so apparent in a relatively short period of time that I believe we will vote back in prohibition. That is, at least, the way the historical cycle on legalized gambling has gone. There is no reason to think that that historical cycle will not continue.

Senator **Durenberger**. I am wondering where does it take us. There are some people who believe that playing cards is immoral. It may be because they feel that if you play blackjack eventually you are going to be playing blackjack for money, and that is illegal except for a very few places in this country. And I am trying to figure out here what is next in this whole evolution.

Mr. **Braidfoot**. Let me call your attention to another paragraph from Mr. Bower's speech, again in 1982:

> A survey of the video players over age 21 in New York and Illinois revealed that 63 percent had never bought an instant lottery ticket and 99 percent had never purchased a weekly numbers ticket, despite being exposed to those lottery products for 6 or 8 years.

When the State gets into the business of promoting the lottery, then the State gets into the business of doing marketing studies to detect where the vulnerability is, where the new niche is, and then the State pours money into the promotions necessary to change that vacuum into a cash-generating market.

Now, that is why the fourth generation of lotteries will be the video lottery, because they are aware that your children, just as my children, like to hear the noise, and the sound, and flash, and so forth, and so this is the next anticipated hope to break into the new market.

Mr. **Fulcher**. A concrete example of that, I believe, is rather despicably displayed in a lottery directors' meeting about 3 years ago in which the title of a workshop was "How To Keep Instant Lottery Sales at Their Peak During Poor Economic Times in Low Socio-Economic Neighborhoods." That was the topic which means, translated, "How to Keep Sucking Money Out of the Poor People, No Matter How Bad Things Get."

That was the actual title of a workshop.

Senator **Durenberger**. OK. Well, gentlemen, thank you very, very much.

In the course of this overview—we are running out of time—I wanted to ask you about the advertising, and the way the commissions operate, and how we get around politicians.

I said in my opening statement that it looks as if we are going around the elected folks by using initiative and referendum, because nobody wants to raise taxes explicitly. So we say let's just give somebody something they want, which is a game, fun, fantasy, et cetera, and we get tax money by doing it. The response was, "Well, you have to go around those guys, because they are caught between the moralists and the reformed gamblers on the one hand, and the pressure not to raise taxes too explicitly on the other. So we have got to go around them. We have got to avoid the politicians and get right out there, right out to the folks, and tell them we have got something good, and it will also do good for poor people and all that sort of thing, and it will hold taxes down."

Mr. **Fulcher**. I believe there is another way. Call me a cockeyed optimist if you will, but I believe that if you bombard even State legislatures with concrete, objective documentation—that is why I don't fight the issue based on compulsive gambling. That was my thing and the thing of millions of others who are suffering, but that is not the reason it should be not legalized. Take their arguments and defeat them, and we have the movement in Delaware where you might see some legislation against allowing the advertising of gambling, and for me that is the first step in a sane approach.

Let's see how popular it is without creating new clients on a weekly basis, and eliminate the advertising, and then limit the locations to certain establishments frequented by adults only, like bars, and get the machines out of the supermarkets and drugstores and what have you, and then we will really see how much the people want to gamble.

Senator **Durenberger**. Should we be exploring authorizing the Federal Trade Commission to do more in the fairness in advertising area? Or are the States pretty fair about the product they are selling?

Mr. **Fulcher**. I don't believe so. I believe that if they were a private business, the consumer fraud agencies would be all over them. They promise—listen, they promise easy winnings. The product they yield is constant losing, at least for 99 percent of the people.

They label winners anybody who wins free tickets $2, $5, $10, and so on. We discovered in the study that 95 percent of those people pour back the money immediately on the spot until they eventually lose, looking for the big prize. So, predominately, 99 percent losers.

Senator **Durenberger**. Mr. Braidfoot?

Mr. **Braidfoot**. I would observe that one of the States which is dealing at the present time with a vote in November on the lottery is Oregon, where it was put on the ballot by initiative and referendum. Scientific Games spent $150,000, according to Oregon newspapers, for petition circulators, legal fees, marketing agencies, and so forth. I believe it was the Governor who suggested that it might be time for the State of Oregon to reexamine its laws against out-of-State petition circulation.

Senator **Durenberger**. OK gentleman. Thank you very much for testifying.

[A study conducted by the Delaware Council on Gambling Problems submitted by Mr. Fulcher, and the prepared statement of Mr. Braidfoot, with attachments, follow:]

"THE IMPACT OF STATE SPONSORED GAMBLING ON THE COMMUNITY"

A SIX MONTH STUDY CONDUCTED IN NEW CASTLE COUNTY, DELAWARE

CONDUCTED BY: DELAWARE COUNCIL ON GAMBLING PROBLEMS

103 WEST 7th STREET
WILMINGTON, DELAWARE, 19801
(302) 655-3261 or 656-2209

Study Conducted: APRIL 1, 1979---SEPTEMBER 30, 1979

One Page Summary Findings: Inside Cover
More Detailed Summary: Pages 1 thru 13
Complete Report Data: Pages 14 thru 52

GENERAL SUMMARY FINDINGS OF THE DELAWARE GAMBLING SURVEY

"THE IMPACT OF STATE SPONSORED GAMBLING ON NEW CASTLE COUNTY"

(Complete Summary Findings Contained On Pages 1--13)
(Comprehensive Verifying Data Contained on Pp. 14--52)

THE STATE LOTTERY COMMISSION PURPOSELY PLANS AND STRUCTURES ITS LEGALIZED GAMBLING TO TAKE FULL ADVANTAGE OF THE POOREST PERSONS.

THE POOREST SEGMENT OF THE COMMUNITY GAMBLES THREE TIMES AS MUCH AS THE UPPER-MIDDLE INCOME AREA PERSONS AND TWICE AS MUCH AS MIDDLE INCOME AND LOWER-MIDDLE INCOME AREA PERSONS.

THE STATE LOTTERY IS SUPPORTED BY A RELATIVELY SMALL GROUP OF PEOPLE WHO BET A RELATIVELY LARGE AMOUNT OF MONEY EACH WEEK.

MORE THAN HALF THE REGULAR LOTTERY PLAYERS WERE "CREATED" BY LEGALIZED GAMBLING. THERE IS ALSO A RELATIONSHIP TO COMPULSIVE GAMBLI

STATE GAMBLING ADVERTISING IS BASICALLY UNINFORMATIVE AND DECEPTIVE.

INSTANT LOTTERY GAMES ARE UNPOPULAR AND UNPRODUCTIVE.

SOME LEGALIZED GAMBLING PRACTICES HAVE LED TO ILLEGAL ACTS.

COUNTY GOVERNMENT HAS TAKEN POSITIVE, PRODUCTIVE STEPS TO DEAL WITH THE GAMBLING ISSUE; STATE AND CITY GOVERNMENTS HAVE NEGLECTED THE ISS

PRIVATE, PROFESSIONAL AND CIVIC GROUPS HAVE BECOME INCREASINGLY AWARE OF THE GAMBLING ISSUE; THE PUBLIC SECTOR HAS NOT RESPONDED AS WELL.

THE LOCAL MEDIA HAS SHOWN ONLY TOKEN INTEREST IN THE GAMBLING ISSUE; THE LOCAL NEWSPAPER HAS TAKEN A PRO-GAMBLING POSITION.

THE STATE LEGISLATURE HAS SHOWN A PRO GAMBLING POSTURE, HAS NOT TAKEN STEPS TO INSURE SUPERVISION OR CONTROL OF STATE GAMBLING ; BUT, HAS RECENTLY SHOWN AN UNOFFICIAL POSITIVE CHANGE IN ATTITUDE.

PERSONS WHO DO NOT GAMBLE OFFER THE POOR QUALITY OF STATE GAMBLING AND LACK OF MONEY AS THEIR REASONS.

STATE SPONSORED GAMBLING HAS NOT DECREASED ILLEGAL GAMBLING; IN FACT, THERE IS EVIDENCE THAT STATE SPONSORED GAMBLING HAS ACTUALLY INCREASED ILLEGAL GAMBLING IN NEW CASTLE COUNTY.

THE STATE LOTTERY HAS PRODUCED LESS THAN ONE THIRD OF ONE PERCENT OF THE YEARLY STATE BUDGET ON THE AVERAGE---AN INSIGNIFICANT AMOUNT.

elaware Council on Gambling Problems// 103 West 7th//Wilmington, Dela. 1980

INTRODUCTION

Scope of Survey:

1,504 PERSONS WHO GAMBLE ON STATE LOTTERIES WERE INTERVIEWED IN NEW CASTLE COUNTY.

55 OUT OF A POSSIBLE 62 LOTTERY AGENT LOCATIONS WERE VISITED, AND AGENTS WERE INTERVIEWED.

115 COMMUNITY SERVICE AGENCIES WERE SURVEYED.

25 PRIVATE AND PUBLIC PROFESSIONAL ORGANIZATIONS WERE EXAMINED.

3 MEDIA SOURCES WERE EVALUATED.

222 PERSONS WHO REFUSE TO GAMBLE WERE INTERVIEWED.

340 RELIGIOUS ORGANIZATIONS WERE CONTACTED.

Method Utilized:

Six persons were provided with standardized survey questionnaires. All were instructed in their use in order to promote uniformity of method. Each survey questionnaire had 18 questions (copy enclosed). Persons who had just purchased state lottery tickets and/or daily numbers were approached and asked to take a few moments to supply some information on their betting habits. Approximately 65% of the persons approached agreed to participate. That added up to 1,504 persons. Since some persons either could not, or did not wish to answer all questions, an individual total is indicated for each question. Each total calculation was checked and rechecked at least three times, by three different staff members on a weekly basis; and then checked again upon completion of the survey in September.

Funding Source/Personnel/Time Frame of the Survey:

A New Castle County CETA grant of $26,401 was provided to the Delmarva Ecumenical Agency on behalf of its Delaware Council on Gambling Problems. The grant provided for 6 persons: A Project Director; Clerical Aide and 4 Research Specialists. All information was gathered from April 1, 1979 thru August 31, 1979. The information was re-examined, collated and interpreted during the month of September.

Explanation of Demographic Terms:

The following terms are frequently used throughout the report: "HIGHEST INCOME AREA"///"UPPER MIDDLE INCOME AREA"/// "LOWER MIDDLE TO MIDDLE WORKING INCOME AREAS"/// "LOWEST INCOME AREA"

These terms are taken from the following sources:
United States Census Bureau Report on Delaware;
City of Wilmington Planning Office;
New Castle County Planning Office;
Demographic Study of New Castle County, completed and distributed by Community Action of Greater Wilmington.
Maps with demographic detail are provided, beginning on page 9.

SURVEY QUESTIONNAIRE

DELAWARE COUNCIL ON GAMBLING PROBLEMS
PROBLEM GAMBLING COUNSELING CENTER
900 Washington Street, Wilmington, DE 19801
(302) 655-3261

LOCATION OF INTERVIEW ____________________ LOTTERY AGENT LOCATION ____________________

DATE:______________ DAY OF WEEK______________ TIME OF DAY__________

1. HOW MANY TIMES A WEEK DO YOU PLAY THE NUMBERS? 1,487 PERSONS ANSWERED
2. ABOUT HOW MUCH A WEEK DO YOU SPEND? 1,504 PERSONS ANSWERED
3. WHAT ARE THE ODDS AGAINST HITTING THE NUMBER STRAIGHT? 1,489 ANSWERED
4. WHAT ARE THE ODDS AGAINST HITTING THE COMBINATION? 1,489 ANSWERED
5. HAVE YOU EVER HIT THE NUMBER? 1,493 PERSONS ANSWERED
6. DO YOU PLAY THE INSTANT LOTTERY? 1,318 PERSONS ANSWERED
7. HOW OFTEN? 962 PERSONS ANSWERED
8. HOW MUCH DO YOU SPEND? 962 PERSONS ANSWERED
9. HAVE YOU EVER WON? 962 PERSONS ANSWERED
10. DID YOU BUY MORE TICKETS WITH THE WINNINGS? 962 PERSONS ANSWERED
11. DO YOU KNOW THE ODDS AGAINST WINNING ON THE INSTANT LOTTERY GAME? 1,326
12. ACCORDING TO YOUR OWN BUDGET WHERE DOES YOUR GAMBLING MONEY COME FROM? 1,491 PERSONS ANSWERED
    ENTERTAINMENT?__________ SPARE CHANGE?__________ OTHER?__________
13. DID YOU GAMBLE REGULARLY BEFORE IT WAS MADE LEGAL? 1,477 PERSONS ANSWERED
14. WHAT OTHER FORM OF GAMBLING DO YOU DO? 1,484 PERSONS ANSWERED
    HORSERACING?________ CARDS?__________ BINGO?________ CASINO?__________
15. HAVE YOU BEEN TO THE CASINO IN ATLANTIC CITY? 1,450 PERSONS ANSWERED
16. HOW OFTEN? 1,450 PERSONS ANSWERED
17. DO YOU UNDERSTAND THE TERM "COMPULSIVE GAMBLING"? 1,362 PERSONS ANSWERED
    (ASK TO DEFINE)
18. DO YOU KNOW ANYONE WHO IS A COMPULSIVE GAMBLER? 1,046 PERSONS ANSWERED

SUMMARY OF SURVEY FINDINGS

Verifying Data To Substantiate Each Summary Finding Can Be Found In Each Of The Chapters Indicated.

CHAPTER I.
pg.14 State Sponsored Gambling; Who Gambles/ How Much/ With What Result

1. THE STATE LOTTERY IS PURPOSELY PLANNED AND STRUCTURED TO TAKE ADVANTAGE OF THE POOREST ELEMENT OF THE COMMUNITY.

   The poorest persons in New Castle County bet three times as much money on a regular basis as do persons in the upper middle income areas. The poorest persons bet almost twice as much as those in lower middle/working class areas.
   AVERAGE BET PER PERSON, PER WEEK BY THE POOREST PERSONS---$27.3
   AVERAGE BET PER PERSON, PER WEEK; MIDDLE/WORKING AREAS----$15.0
   AVERAGE BET PER PERSON, PER WEEK IN UPPER-MIDDLE INCOME---$ 9.2

2. THE STATE LOTTERY COMMISSION HAS PURPOSELY PLACED ITS LOTTERY MACHINE LOCATIONS IN THE POOREST AREAS WHERE THERE IS THE HIGHEST UNEMPLOYMENT FIGURES, LOWEST STANDARDS OF LIVING AND HIGHEST PERCENTAGE OF WELFARE RECIPIENTS: SEE NEXT PAGE

   a) There is not a single lottery machine in the highest income area of 17,630 persons.
   b) There is one lottery machine for every 17,774 persons in the upper-middle income areas. (6 locations for 106,648 persons
   c) There is one lottery machine for every 5,032 persons in the lower middle to middle working income areas (40 locations for 201,316 persons)
   d) There is one lottery machine for every 1,981 persons in the poorest income area. (21 locations for 41,610 persons)
   There is a marked increase in betting on Welfare Check Days.

3. OVERALL, 28.2% OF THE PERSONS WHO GAMBLE ADMIT THAT THEY USE MONEY OTHER THAN ENTERTAINMENT AND SPARE CHANGE MONIES FOR THEIR STATE SPONSORED GAMBLING:
   23% of the Upper Middle Income persons admit to this.
   28% of the Lower Middle/Working Income persons admit to this.
   33% of the Lowest Income persons admit to this.

4. THE STATE LOTTERY IS BEING SUPPORTED BY A RELATIVELY SMALL NUMBER OF PERSONS WHO ARE BETTING A RELATIVELY LARGE AMOUNT OF MONEY ON A REGULAR BASIS.

   66.3% of the 1,504 persons questioned admit to being regular players: that is, playing from a minimum of $6 per week to a maximum of one person in the study who bets $288 per week regularly.
   Upper Middle Income Persons--50% regular players/ 50% occasiona
   Lower Middle/Working Persons--68.4% regular players/31.6% occas
   Lowest Income Area Persons---79.4% regular players/20.6% occas.

   Upper Middle Income Persons play an average of 3 times per week.
   Lower Middle/Working Persons play an average of 4.3 times a wee
   Lowest Income Area Persons play an average of 4.6 times per wee

   The State Lottery Is Not Being Supported By A Large Group Of People, Betting A Small Amount Of Money; But It Is Being Supported By A Small Group Of People, Betting A Large Amount Of Money.

PROFILE OF STATE LOTTERY AS IT FUNCTIONS IN THE STATE OF DELAWARE

The Poorer the area, the more the State Lottery Commission attempts to promote its gambling ventures.

New Castle County Income Areas:	Population of Income Areas	Placement of Lottery Machines by Lottery Commission:	Average Bet Per Person, Per Week:
HIGHEST INCOME AREA: HOCKESSIN, YORKLYN, CENTERVILLE, GREENVILLE	17,630	There are no lottery machines in this area.	0
UPPER MIDDLE INCOME AREAS: Fairfax, Talleyville, Rockland, Arden, Winterthur, Others	106,648	There are 6 lottery locations 1 LOTTERY LOCATION FOR EVERY 17,774	$9.28 PER PERSON PER WEEK
LOWER MIDDLE TO WORKING MIDDLE INCOME AREAS: Claymont, Stanton, Bellefonte, Elsmere, Newport, Parts of Wilm.	201,316	There are 40 lottery machine locations. 1 LOTTERY LOCATION FOR EVERY 5,032	$15.01 PER PERSON PER WEEK
LOWEST INCOME AREA: Wilmington: northeast/ east/ west center city/ south city/south city the "barrio"	41,610	There are 21 lottery machine locations. 1 LOTTERY LOCATION FOR EVERY 1,981	$27.30 PER PERSON PER WEEK

Since the first year of the legalized gambling lottery in Delaware, the revenue raised for the State budget has only averaged .00332 (one third of one percent) of the yearly budget

Approximately $34,000 is bet every day. More than 81% of that amount comes from the two lowest income areas; Lowest Income and Lower Middle Income Areas.

CHAPTER II.
pg.19. **The "Making" Of New Gamblers By State Government**

1. STATE SPONSORED LOTTERIES AND THEIR PROMOTION ARE LITERALLY CREATING NEW GAMBLERS IN THE COMMUNITY: of the 1,477 persons who answered this question, 56% of them said that they almost never gambled before the legalization of State sponsored gambling ventures. Of this number, 66% of the women questioned said that they virtually never gambled before the State sponsored gambling.

2. THE POLICIES AND PRACTICES OF THE STATE LOTTERY COMMISSION ARE DIRECTLY OPPOSED AND CONTRADICTORY TO THE POLICIES AND PRACTICES OF EVERY OTHER STATE HUMAN SERVICE AGENCY.

CHAPTER III.
pg.22. **Lottery Commission Advertising and Its Effects**

1. STATE LOTTERY ADVERTISING APPEARS TO BE MISLEADING AT BEST, NON-INFORMATIVE AND DECEPTIVE AT WORST. THE VAST MAJORITY OF LOTTERY PLAYERS DO NOT KNOW THE MOST BASIC INFORMATION ABOUT THE LOTTERY FACTS.

   82.9% of the persons who bet do not know the odds against hitting the daily number on a straight bet.
   94% of the persons who bet do not know the odds against hitting the daily number on a combination bet.
   98.6% of the persons who bet on the instant lottery games do not know the odds against winning on those games.

2. 95.2% OF THE PERSONS WHO WIN ON ANY LOTTERY GAMES ADMIT THAT THEY IMMEDIATELY BUY MORE LOTTERY TICKETS WITH THEIR WINNINGS. The advertising and lottery agent "pitches" are based on that practice.

3. LOTTERY ADVERTISING MAKES NO MENTION OF TRUTH IN ADVERTISING REALITY THAT BETTER THAN 99% OF ALL PLAYERS MUST LOSE.

CHAPTER IV.
pg.30. **The Instant Lottery Games**

1. THE INSTANT LOTTERY GAMES ARE ONLY LIGHTLY PLAYED AND SOME LOTTERY AGENTS SAY THAT THEY ARE ONLY USED TO HELP CREATE THE GAMBLING ATMOSPHERE AND TO SERVE AS A PRELUDE TO THE DAILY NUMBERS.

   Every instant lottery game since the legalization in 1975 has failed to achieve its goal. The study reveals that only 37.3% of the survey persons play the instant lottery; betting less than $2.75 per week.

CHAPTER V.
pg.31. Participation in Other Forms of Gambling

1. 77.1% OF THE REGULAR LOTTERY PLAYERS ADMIT TO INFREQUENT INDULGENCE IN OTHER FORMS OF LEGAL AND ILLEGAL FORMS OF GAMBLING: CARD GAMES, BINGO, HORSE RACING, CASINOS.
2. 21.4% OF THE PERSONS SURVEYED ADMIT TO HAVING VISITED THE ATLANTIC CITY CASINO AT LEAST ONCE IN THE LAST YEAR.

CHAPTER VI.
pg.32. Some Factors on the State Lotteries and Compulsive Gambling

1. 70.3% OF THE PERSONS SURVEYED PROPERLY DEFINED COMPULSIVE GAMBLING WHEN ASKED BY THE INTERVIEWER.
2. 32% OF THAT NUMBER SAID THAT THEY WERE PERSONALLY ACQUAINTED WITH COMPULSIVE GAMBLERS, OR WERE COMPULSIVE GAMBLERS THEMSELVES.
3. SOME PERSONS SAID THAT THEY WERE PERSONALLY AWARE OF THE HABIT FORMING NATURE OF THE STATE LOTTERY GAMBLING: This is best evidenced by the fact that three persons now in treatment for compulsive gambling admitted to starting their gambling addiction with State lotteries. One such person admits to going from a life-long $20 a week gambler to a $300 a day State lottery player.

CHAPTER VII.
pg.33. Lottery System Evaluations By State Lottery Agents

1. 80% OF THE LOTTERY AGENTS QUESTIONED DISPLAYED DISSATISFACTION WITH CERTAIN POLICIES AND PRACTICES OF THE LOTTERY COMMISSION.
2. TEN SMALL BUSINESS OWNERS IN NEW CASTLE COUNTY GOT RID OF LOTTERY MACHINES BECAUSE OF THE NEGATIVE EFFECTS ON THEIR BUSINESS ESTABLISHMENTS AND/OR PROFITS.
3. TWO OF THE LOTTERY AGENTS ADMITTED TO GIVING UP THEIR LOTTERY MACHINES BECAUSE THEY WITNESSED DANGEROUS EXCESS ON THE PART OF SOME OF THEIR CUSTOMERS.

CHAPTER VIII.
pg.37.

Illegal Practices On The Part Of Some Lottery Agents

1. SOME LOTTERY AGENTS HAVE BEEN INDULGING IN ILLEGAL ACTS IN CONNECTION WITH THEIR LOTTERY PARTICIPATION: Such crimes include direct sales to children and allowing credit to certain gamblers on a regular basis. (One case was reported by a lottery employee that one gambler is permitted $175 a day on credit).

2. SEVERAL ACTIVE PRACTICES ON THE PART OF SOME STATE LOTTERY OFFICIALS COME VERY CLOSE TO IMITATING PRACTICES FORMERLY PRACTICED ONLY BY ORGANIZED CRIME GAMBLING OPERATIONS.

CHAPTER IX.
pg.40.

State, County, and City Government and the Gambling Issue

1. STATE GOVERNMENT HAS DONE VIRTUALLY NOTHING OF A CONTROLLING OR SUPERVISORY NATURE ON THE ISSUE OF LOTTERIES. STATE GOVERNMENT HAS NEGLECTED AND REFUSED TO DEAL WITH THE REALITY OF PROBLEMS WHICH RESULT FROM STATE SPONSORED GAMBLING.

2. CITY GOVERNMENT HAS NEGLECTED TO DEAL WITH ANY MATTERS ON THE WEAKNESSES OF THE GAMBLING REALITY IN WILMINGTON. City government's "attitude" on the gambling issue is directly related to its failure to have jai alai approved.

3. COUNTY GOVERNMENT/COUNTY COUNCIL HAS COOPERATED FULLY IN DEALING WITH THE REALITY OF THE EFFECTS OF GAMBLING ON NEW CASTLE COUNTY.

CHAPTER X.
pg.42.

Community Awareness on the Gambling Issue

1. HUMAN SERVICE AGENCIES: Of the 115 New Castle County human service agencies surveyed; 43% of them admit to practically no knowledge on the gambling issue. Of that number, 73.4% have expressed growing interest in education and/or training in the field.

2. MENTAL HEALTH COMMUNITY: Some State and County public mental health agencies have shown growing interest in learning about the topic of gambling in general and compulsive gambling in particular. Most such agencies said they are beginning to experience the problem.

3. LAW ENFORCEMENT COMMUNITY: Virtually every law enforcement agency in the State has refused to accept education on the subject. No agency has shown interest in learning the relationship between certain criminal acts and compulsive gambling. There has been a marked decrease in attention given to existing organized illegal gambling operations throughout New Castle County.

4. **DELAWARE COURTS:** The court systems in New Castle County have become increasingly aware of the gambling reality as it relates to their function. Family Court especially has taken definite steps to deal with the issue. Some criminal court judges and/or pre-sentence offices have been dealing positively with the issue.

5. **THE CORRECTIONS SYSTEM:** The Delaware Department of of Corrections has virtually ignored the problems of gambling-related factors with their inmates. The State Department of Adult Probation has begun to deal with the issue.

6. **CORPORATE COMMUNITY:** Major corporations in Delaware were all approached and offered opportunities for training in this field. All refused; indicating that they do not have the problem in their companies. The Counseling Center on Problem Gambling indicates otherwise. All major companies have refused to participate in funding the issue.

7. **RELIGIOUS COMMUNITY:** Survey researchers contacted 340 religious organizations and/or churches on the subject of their positions on gambling: 45 Protestant Groups responded// 5 Catholic Churches// 4 Jewish Organizations. Protestant Sects were almost unanimous in opposition to State sponsored gambling and its results.
Catholics were not concerned and/or in favor (moderation)
Jewish Groups had no position on the issue.

8. **PROFESSIONAL ORGANIZATIONS, CIVIC AND FRATERNAL GROUPS:** The Delaware Council on Gambling Problems has made more than 287 formal presentations on the state sponsored gambling topic. This would indicate a growing interest. Certain professional groups have ignored offers for educati ironically these groups should be most concerned, since the issue directly touches their function.

9. **WATCHDOG ORGANIZATIONS:** Common Cause and Committeeof 39 have refused involvement by ignoring every attempt to make a presentation; not answering correspondence or calls.

10. **FUNDING AGENCIES:** Only the New Castle County Government and the Kutz Foundation have positively responded with funding for research, education, counseling and crisis intervention on this subject. Some Church groups have contributed to bare necessities. Virtually every other public and private agency has failed to give funding consideration; mostly through lack of appreciation of the problems entailed.

11. **MEDIA:** With the exception of WILM radio, virtually every other media source in New Castle County has neglected this issue; giving token attention at best. None has done any investigative reporting on state gambling. The News Journal papers have given ample evidence of taking a strong pro gambling position; in editorial policy and in news coverage, and in lack of action on the topic.

CHAPTER XI.
pg.48. The State Legislature and the Gambling Issue

1. THE STATE LEGISLATURE HAS SHOWN A PATTERN OF PRO GAMBLING POSITIONS IN ITS ACTIONS.
2. THERE HAVE BEEN NO LEGISLATIVE ATTEMPTS TO ESTABLISH A REGULATORY GAMBLING COMMISSION; AS HAS BEEN DONE IN OTHER STATES WITH STATE SPONSORED GAMBLING .
3. A RECENT UNOFFICIAL MOVE HAS BEEN DETECTED ON THE PART OF SOME LEGISLATORS TO BECOME CONCERNED WITH THE ISSUE.

CHAPTER XII.
49. Rationale Given By Persons Who Do Not Gamble

1. SEVERAL HUNDRED PERSONS SAID THAT THEY REFUSED TO GAMBLE.
2. REASONS GIVEN HAD TO DUE WITH FINANCES, ATTITUDES AND MORALS.
3. MOST CONSIDERED THE STATE LOTTERY AS AN INFERIOR PRODUCT.

CHAPTER XIII.
pg.50. The State Lottery Has Failed To Achieve Its Goals

1. THE STATE LOTTERY DOES NOT RAISE SIGNIFICANT REVENUE FOR THE STATE.
2. THE LOTTERY IS REGRESSIVE TAXATION, IN THAT IT PURPOSELY TAKES ADVANTAGE OF THE POOREST ELEMENT IN THE COMMUNITY.
3. THE LOTTERY IS THE LEAST CONSISTENT MANNER OF RAISING REVENUE.
4. THE LOTTERY DOES NOT DECREASE ILLEGAL GAMBLING; BUT ACTUALLY INCREASES IT.
5. THE LOTTERY DOES NOT "ALLOW" MANY PERSONS TO GAMBLE; BUT RATHER, IT ACTUALLY CREATES NEW GAMBLERS.

NEW CASTLE COUNTY DEMOGRAPHIC INFORMATION:

The next four pages contain maps indicating the geographical and socioeconomic profile of New Castle County.

Although monetary figures may have risen since this census data was first compiled, the ratios have remained the same.

The relationships between the efforts of State government to promote its gambling and the demographic makeup of the areas are valid.

AS THE SOCIOECONOMIC CONDITION OF AN AREA DECREASES, THE STATE LOTTERY COMMISSION'S EFFORTS TO PROMOTE GAMBLING INCREASE IN THAT AREA.

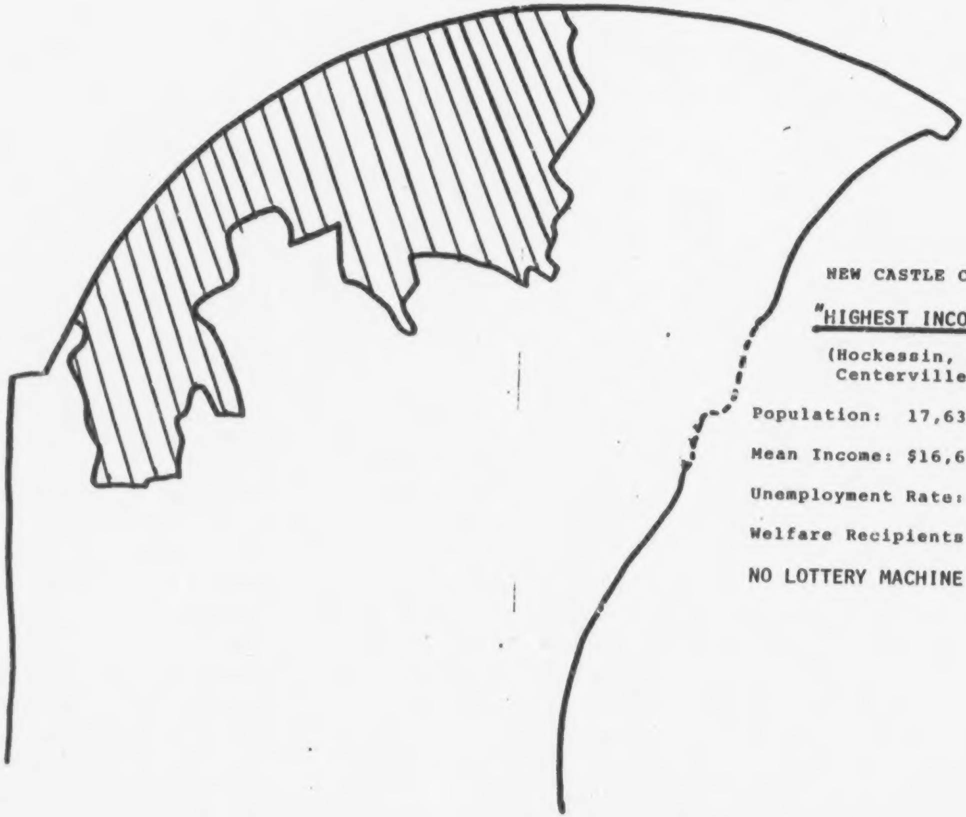
* Special note should be made of the exactness of the survey with regard to peculiar features of the facts involved. For instance:

Although certain lottery locations may be in one demographic area, it is possible that they service persons from another area. Examples:

O'Connor's Pharmacy in the duPont Building is located in the City but participation in gambling there is as follows: FROM 8:00am UNTIL 5:30pm THE PERSONS GAMBLING THERE ARE PRIMARILY DUPONT EMPLOYEES WHO BET AN AVERAGE OF $9.96 PER PERSON PER WEEK. FROM 5:30pm UNTIL 6:30pm NEIGHBORHOOD PERSONS AND JANITORS WHO COME ON DUTY BET THERE. THIS LATTER GROUP OF LOTTERY PLAYERS BET AN AVERAGE OF $31.13 PER PERSON PER WEEK.

The following lottery locations demonstrate this same aspect of gambling participation:

Mom's Smoke Shop//Lincoln Smoke Shop//Kitty's Luncheonette// Happy Harry's//Ray's Nitty Gritty//Standard News//



NEW CASTLE COUNTY

"HIGHEST INCOME AREA"

(Hockessin, Yorklyn,
Centerville, Greenville)

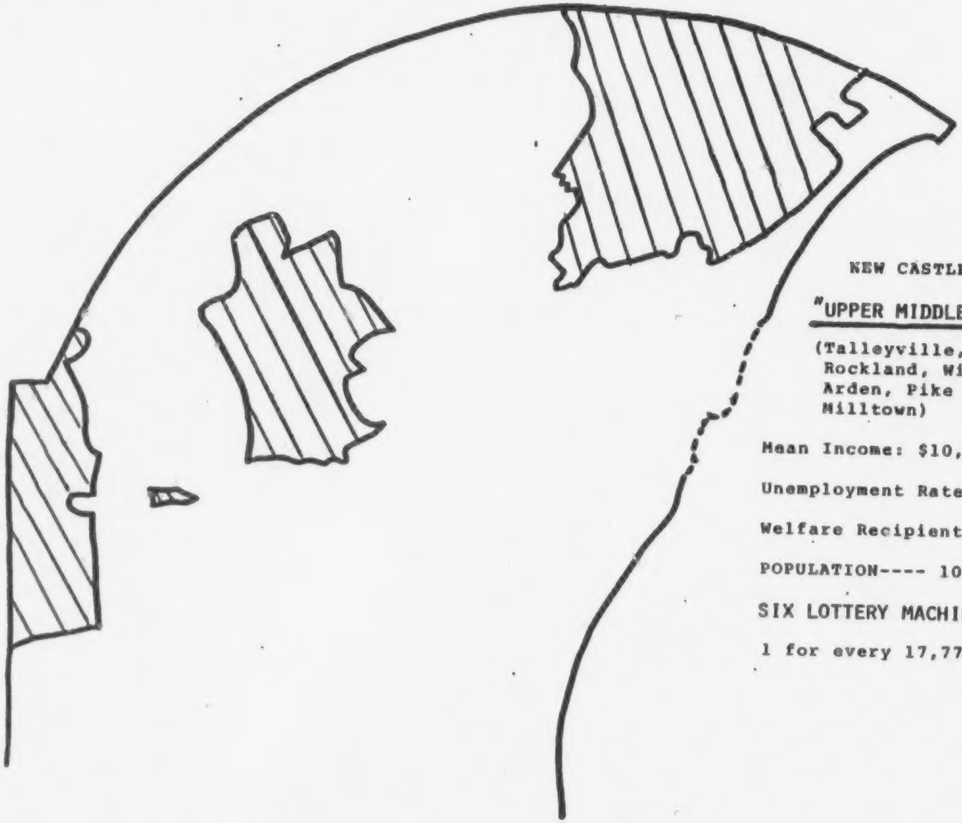
Population: 17,630

Mean Income: $16,691--$32,761

Unemployment Rate: below 4%

Welfare Recipients: 27 families

NO LOTTERY MACHINE LOCATIONS



NEW CASTLE COUNTY

"UPPER MIDDLE INCOME AREAS"

(Talleyville, Fairfax,
Rockland, Winterthur,
Arden, Pike Creek Valley,
Milltown)

Mean Income: $10,967--$24,344

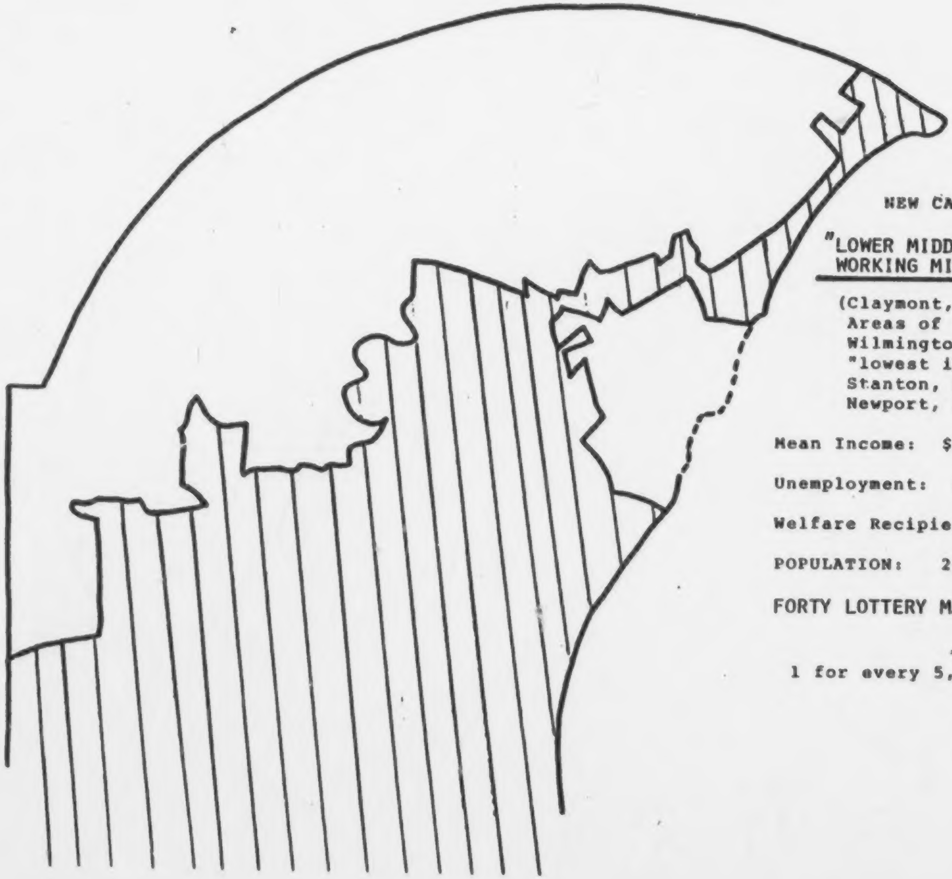
Unemployment Rate: 4% to 8%

Welfare Recipients: 572 families

POPULATION---- 106,648

SIX LOTTERY MACHINE LOCATIONS

1 for every 17,774 persons



NEW CASTLE COUNTY

"LOWER MIDDLE INCOME TO
WORKING MIDDLE INCOME AREAS

(Claymont, Bellefonte,
Areas of the City of
Wilmington not in the
"lowest income areas",
Stanton, Marshallton,
Newport, Elsmere, others)

Mean Income: $8,100--$14,340

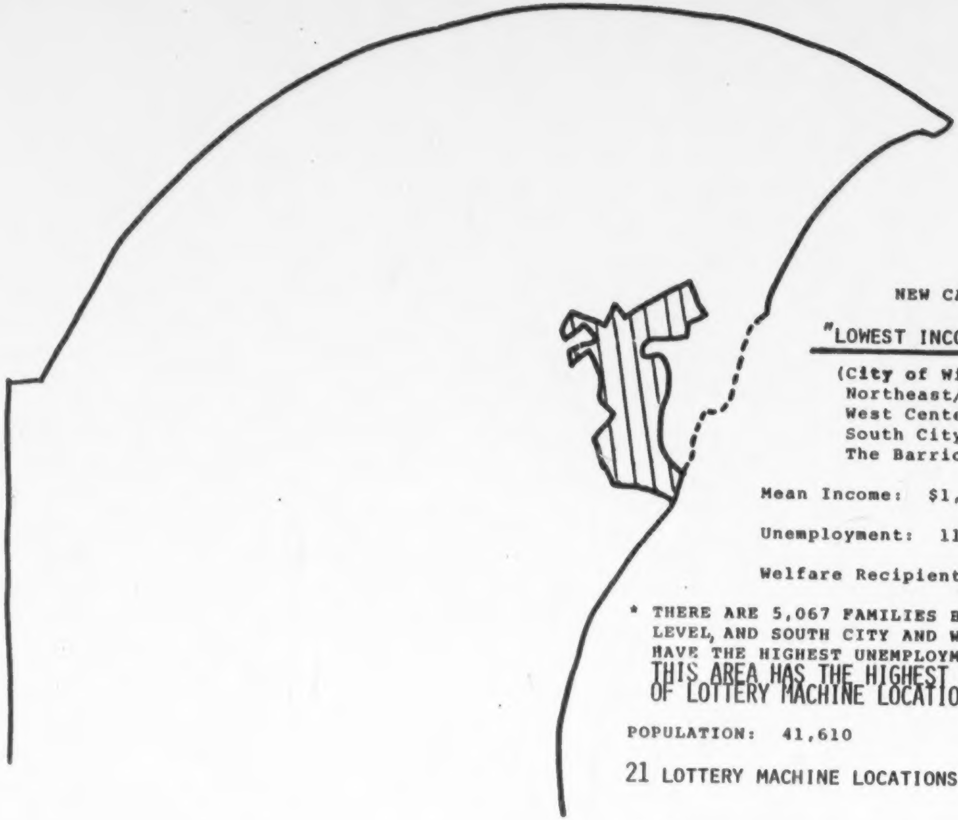
Unemployment: 8% to 11%

Welfare Recipients: 970 famili

POPULATION: 201,316

FORTY LOTTERY MACHINE LOCATIONS

1 for every 5,032 persons



NEW CASTLE COUNTY

"LOWEST INCOME AREA"

(City of Wilmington:
Northeast/ East Side/
West Center City/ South Cit
South City Extension/
The Barrio)

Mean Income: $1,764--$5,777

Unemployment: 11% to 20%

Welfare Recipients: 2,244 familie:

* THERE ARE 5,067 FAMILIES BELOW THE POVERTY LEVEL, AND SOUTH CITY AND WEST CENTER CITY HAVE THE HIGHEST UNEMPLOYMENT IN THE STATE- THIS AREA HAS THE HIGHEST CONCENTRATION OF LOTTERY MACHINE LOCATIONS.

POPULATION: 41,610

21 LOTTERY MACHINE LOCATIONS

1 for every 1,981 persons

Chapter I.

WHO GAMBLES?// HOW MUCH?//HOW OFTEN?//WITH WHAT RESULTS?

A complete demographic profile of New Castle County was undertaken by the survey researchers with the aid of reports from the United States Census Bureau for Delaware, City of Wilmington Planning Office, New Castle County Planning Office, and a comprehensive report compiled by the Community Action of Greater Wilmington in the mid 70's. This demographic material called for dividing New Castle County into the following categories:

Highest Income Areas// Upper Middle Income Areas//

Lower Middle Income to Working Middle Income Areas//

Lowest Income Areas// COMPLETE RELEVANT INFORMATION

ON EACH AREA IS CONTAINED ON PAGES 9 THRU 13; WITH MAPS.

Since the State Lottery Commission has been given responsibility for the decision making policies and program implementation of the daily functions of the state lottery, it must be determined that whatever plan is operational, has been devised by the State Lottery Commissioner.

In light of the information which follows, the survey showed that the State Lottery Commission has entered upon a planned, structured approach of promoting and encouraging gambling among the poorest persons in New Castle County; as evidenced by the placement of state lottery machine locations:

1. The State Lottery Commission has not placed a single lottery machine in what has been designated as the Highest Income Area of the County (Hockessin, Yorklyn, Centerville, Greenville). No lottery locations for 17,630.

2. The State Lottery Commission has placed one lottery machine location for every 17,774 persons in the Upper Middle Income Areas (Talleyville, Fairfax, Rockland, Winterthur, Arden, Pike Creek Valley, others). 6 lottery locations for 106,648 persons

3. The State Lottery Commission has placed one lottery machine location for every 5,032 persons in the Lower Middle Income to Working Middle Income Areas of the County (Claymont, Bellfonte, Stanton, Marshallton, Newport, Elsmere, certain areas of Wilmington not included in the poorest sections, and others). 40 lottery locations for 201,316

4. The State Lottery Commission has placed one lottery machine location for every 1,981 persons in the lowest income areas,(City of Wilmington: northeast, east side, west center city, south city, south city extension, and the barrio). 21 locations for 41,610 persons

Survey Questions Related to Betting Habits

Four research specialists went to the various lottery locations with letters of introduction for the lottery agent, explaining the survey format. The researcher: had a number of questionnaires for each visit. Certain individuals were approached immediately after they had purchased lottery tickets. They were asked if they would take a few minutes to answer some questions on the subject of their betting habits on the state lottery. Approximately 65% of the persons agreed. That amounted to 1,504 persons.

The survey took place at various times of the week and at various times of the day between April 1, 1979 and August 31, 1979. The facts were gathered at 55 lottery locations throughout New Castle County. The reasons we visited each location at different times of the week and at different times of the day was to obtain as full and as real a picture as possible. We did not want to be victims of a single betting pattern. The reason a limited number of Upper Middle Income persons were interviewed was because 3 of the 6 Upper Middle Income lottery location agents refused to allow the survey to be conducted in their areas.

The financial questions on the survey:

#1. "HOW MANY TIMES A WEEK DO YOU PLAY THE NUMBERS"?

58 Upper Middle Income Area Persons answered; resulting in an average answer of 3 times per week.

769 Lower Middle Income to Working Middle Income Areas Persons answered; resulting in an average answer of 4.3 times per week.

660 Lowest Income Area Persons answered, resulting in an average answer of 4.6 times per week.

#2. "ABOUT HOW MUCH DO YOU SPEND"?

There is naturally a credibility factor in a question of this nature. Some persons consider this a very private matter, yet, 1,504 answered. Some persons may have understated the amount they bet based on the following two observations by the researchers. In several cases the Lottery Agent approached our researchers and stated that the person who had just left the interview actually bet much more than he or she stated in the interview. In other cases, the person had more tickets in his hand at the time of the interview than he admitted to betting in an entire week. Be that as it may, our researchers took the interviewee's figure and that is the figure calculated in the survey.

58 Upper Middle Income Area Persons answer. resulting in an average bet of $9.28 per person per week.

785 Lower Middle Income to Working Middle Income Area Persons answered; resulting in an average bet of $15.01 per person per week.

661 Lowest Income Area Persons answered; resulting in an average bet of $27.30 per person per week.

Overall, a total of 1,504 persons answered and bet $30,366 collectively; resulting in a total average of $17.19 per person per week.

* Special note should be made that this average bet per person per week takes on more significance when it is established that we calculated in the average bets made by interviewees on the instant lottery bets recorded in questions: "Do you play the instant lottery"?///"How much do you spend"? The instant lottery bets are much smaller, as will be explained in chapter IV.

#12. "ACCORDING TO YOUR OWN BUDGET, WHERE DOES YOUR GAMBLING MONEY COME FROM: Entertainment? Spare Change? Other?"

The purpose of this question was to attempt to ascertain the source of persons' gambling money. It is often mentioned by proponents of legalized gambling that lottery players use entertainment money, as an alternate form of recreation. Of course, such a question carries a natural credibility gap. Persons who are using more "necessary money", might not be willing to admit that. But, taking the figures as they were given still reveals the betting pattern, as it is related to the socioeconomic reality of the area.

Upper Middle Income Area Persons Answering: 58 persons----
34% use entertainment money for gambling
62% use spare change money for gambling
23% indicated "other"

Lower Middle Income Area to Working Middle Income Area Persons
Answering: 774 persons--------
17.9% use entertainment money for gambling
53.7% use spare change money for gambling
28.4% indicated "other"

Lowest Income Area Persons Answering: 659 persons---------
17% use entertainment money for gambling
50% use spare change money for gambling
33% indicated "other"

Perhaps the term "other" needs clarification. When "entertainment and spare change" are eliminated, "other" might be interpreted as "money actually needed for more necessary items".

Lowest Income Area persons demonstrated the highest percentage of "other" money used for gambling. At best, lowest income area persons most likely have the least "entertainment" and/or "spare change". To demonstrate this point, one man from the lowest income area admitted to betting $288 per week on the state lottery. He said it was "spare change".

Betting Habits Determination

From the data collected from the questions posed, we were able to define the term regular lottery player. Persons who bet an average of $6 per week (averaging $1 per day) and persons admitting to betting at least 3.5 times per week, would be called "Regular Lottery Players". Other persons betting lesser amounts and/or fewer times per week were called, "Occasional Players". On that basis....

Upper Middle Income Area Persons (58 persons)
50% were regular players /// 50% were occasional players

Lower Middle Income to Working Middle Income Area Persons (785 person
68.4% (538) were regular players///31.6% (247) were occasional player

Lowest Income Area Persons (661 persons)
79.4% (518) were regular players///21.6% (143) were occasional player

The lower the income area, the more regularly the persons gamble.

Some Conclusions From The Financial Aspects Of The Survey

The Lowest Income Area Person leads in every category which deals with participation in state sponsored gambling ventures. This includes: lottery machine locations; amount of money bet per person per week; regularity of gambling habits. Since the Lottery Commission could have or should have had this information at its disposal, it can only be concluded that the Lottery Commission has been purposely acting according to the principle that "The Poorer The Person, The More Gambling Should Be Encouraged and Promoted."

This is further substantiated by the fact that 12 lottery agents from the lowest income area openly admitted in the survey that there is a marked increase in lottery betting on "Mother's Day" (a euphemism for "Welfare Check Day"). This is further stressed by the fact that the Lottery Commission advertizes its lottery in the media 5 to 6 times more often on the 1st and 2nd of each month (see Chapter III). This would appear to be an admission on the part of the State Lottery Commission that it knows it is after the welfare money. The average money bet each day throughout the State is $34,000. That figure goes up each 1st and 2nd of the month.

One reported story by a business person in the City deserves attention in this area of concern. The owner of a luncheonette in the lowest income area was visited by lottery officials from Dover on three occasions. The purpose of the visit was to encourage the owner to take a numbers machine. On the third visit a lottery official was reported to have said; "Take a machine in here. You will make a fortune. We have researched this neighborhood, and these people are ripe for plucking". This report, if valid, would appear to indicate an "attitude" toward the poor on the part of the Lottery Commission.

The success of the State Lottery appears to be predicated on considerable involvement in gambling on the part of the poor.

Chapter II.

THE "MAKING" OF NEW GAMBLERS BY STATE GOVERNMENT

Two of the basic principles upon which legalized gambling was initiated were: 1. "Every one is gambling any way, so why not have the State benefit from the proceeds"? 2. "All legalized gambling does is give people who want to gamble, a means of doing it legally".

The results of the survey indicate that neither of these two principles have validity.

Survey question #13 reads as follows:
"DID YOU GAMBLE REGULARLY BEFORE IT WAS MADE LEGAL"?

Of the 1,477 persons who answered this question, 827 replied "NO". This is 56% of those who answered. The credibility value of this response is admittedly questionable. There is some evidence that persons might be hesitant to admit to being "illegal" gamblers, prior to its legalization. That hesitancy should be noted with regard to the value of the responses

There does appear to be validity in the answers from the perspective of the various income level responses:
Upper Middle Income Area Persons' responses show that more of that group have become regular gamblers since its legalization: 63% of those responding said that they did not gamble prior to legalization (31 out of 49 persons).
Lower Middle to Working Middle Income Persons indicated that 57% have become regular gamblers through state legalization (437 out of 767 persons).
Lowest Income Area Persons admit being turned into regular gamblers through state legalization to the tune of 48% (317 out of 661 persons).

These results would appear to be valid since it is commonly accepted that lowest income area persons probably have been gambling regularly to a greater extent than the higher income area persons, even before its legalization. These same figures however, also indicated that more and more persons from the other income areas are "being turned into gamblers" as a direct result of state sponsored and state promoted gambling. The figures also reveal that women are becoming regular gamblers to a greater extent than men. Of the 450 women who responded, 300 of them admitted to having become regular gamblers solely through state sponsored gambling. This conclusion does fall in line with most other studies which show that women are much more reluctant to gamble illegally than men.

A valid conclusion from this particular question and the responses received is that more than half the persons now gambling regularly on the state lottery were not gamblers prior to the legalization, and, therefore, the state lottery is not merely providing an opportunity for persons who gamble to do so regularly, but rather, the state lottery is literally making new gamblers through legalization and promotion.

Failure to Attract the "Real Gamblers"

One of the basic premises of the legalization of gambling was the attempt to capture the "business " of the regular gamblers already in existence. According to the experience of the Problem Gambling Counseling Center in Wilmington, this would appear to have failed. Of the 287 contacts made to the Center for either information and/or counseling services, only 10 of the 287 persons admitted to playing the state sponsored gambling ventures. When this question was put to such persons, they were almost universal in their reaction: "It's strictly a sucker's bet"; "It's a rip-off"; "No respectable gambler would get involved in state gambling". The "real gamblers" often mentioned by legalized gambling proponents in their rationale, are not being drawn to state sponsored gambling, according to the facts available. In order to survive and "succeed" the State Lottery Commission has resorted to attempting to "make regular gamblers out of former non-gamblers, or former light social gamblers".

State Lottery Commission is a State Agency Which has Policies and Practices Directly Opposed to Every Other State Human Service Agency.

Upon examination of each and every State Human Service Agency which deals with persons of the lowest income areas, one discovers a number of basic common denominators. These principles and practices are contradicted by the principles and practices of the State Lottery Commission.

State Human Service Agencies Advocate and Promote For The Lower Income Persons in Delaware:	The State Lottery Commissio Advocates and Promotes the Following Practices:
1. The exercise of efficient responsibility in the use of one's resources.	1. Using a portion of resources gambling; an act of questionable responsibility.
2. Avoid using money for high risk ventures with a high potential for loss.	2. Promoting and encouraging the highest risk venture possible; gamble
3. Avoid looking for an easy, unrealistic way out of tight financial conditions.	3. Advocating the easy way out of tight finances through gambling.
4. Not to pursue human weaknesses which result in the waste of money.	4. Daily involvement in a human weakness which necessitates the loss of money.
5. Seek the best possible dollar value in all consumer products.	5. Purchase of a consumer product (gambling) whic provides no value.

(State Human Services Agencies)	(State Lottery Commission)
6. Advocating work and education as means of financial success.	6. Advocating the "something for nothing" syndrome of gambling.
7. Not to use welfare funds for anything but the necessities for which they are intended.	7. To use whatever funds one has to gamble daily: for poor persons, that means welfare money.
8. To avoid an attitude of wanting more than is necessary and appropriate for normal living.	8. To seek inordinate amounts of money as a reward for doing nothing but placing hope in gambling.

The Human Service Agencies entrusted with the proper instruction of lower income persons are Welfare Office, Social Services, and a number of private and public poverty agencies. The State Lottery Commission works counter productive to such agencies, primarily by the placement of their lottery locations and their high pressure advertising campaigns. THE SPONSORSHIP OF GAMBLING INVOLVES THE STATE IN A GLARING CONTRADICTION: THROUGH ITS WELFARE PROGRAM IT HELPS THE DISADVANTAGED, BUT, THROUGH ITS GAMBLING PROGRAM IT INTENSIFIES THEIR POVERTY. State gambling is predicated on the loss of money by those who participate.

In summary, it can be said that every human service agency in the State is predicated on working WITH persons who use the service. In the case of the Lottery Commission, this particular state agency is predicated on working AGAINST the people.

Chapter III.

LOTTERY COMMISSION ADVERTISING AND ITS EFFECTS

One of the accepted principles of advertising is that the ads actually instruct about facts related to the product in question. Although there is a tendency to concentrate on the high-pressure nature of the lottery advertising campaign, the survey did not deal with that issue. However,some questions were asked which can measure the value of the advertising, in that some basic information was purposely withheld by the State Lottery Commission in its advertising practices.

Questions Number 3, 4, 11 were used to ascertain information about whether or not the proper information on the state sponsored lotteries was getting across to the consumers: persons who gamble on the lottery.

#3. WHAT ARE THE ODDS AGAINST HITTING THE NUMBER STRAIGHT?
#4. WHAT ARE THE ODDS AGSINST HITTING THE COMBINATION?
#11. DO YOU KNOW THE ODDS AGAINST WINNING ON THE INSTANT LOTTERY GAMES?

The responses indicate a high degree of lack of basic information about the lottery on the part of players.

Of the 1,489 persons who answered question #3, 82.9% of the persons who gamble did not know the odds against winning on a straight numbers bet.

Of the 1,489 persons who answered question #4, 94% did not know the odds against winning on the combination bet.

Of the 1,326 persons who answered question #11, 98.6% of the persons did not know the odds against winning on the instant lottery games.

This high degree of lack of knowledge on THE most basic information in gambling can be attributed to the advertising methods used by the State Lottery Commission. On the following pages there are some samples of the advertising ads used in the promotion of state sponsored gambling. There is not a single mention of the odds AGAINST winning.

* It should be noted that in the case of the Lowest Income Area Persons (the poorest people gambling), the degree of lack of knowledge was highest in all categories:
86.9% did not know the odds against winning the straight bet
98% did not know the odds against winning the combination.
100% did not know the odds against winning on the instant lottery

The persons doing the most gambling in the largest amounts are provided with the least information by the State Lottery Commission.

The Odds Against Winning On State Lotteries

The real odds, as they are explained by the State Lottery Commission are somewhat confusing to many persons according to the survey findings.

The State Lottery Commission says that the odds against winning on a straight numbers bet is 1000 to 1.

The Odds Against winning on a combination numbers bet is 333 to 1.

The instant lottery game odds are never fully given in either State Lottery Commission literature or in direct explanations.

One million lottery tickets are printed for each game in question. These tickets are sold until the Lottery Commission is satisfied that the popularity of the game in question has ceased. The facts seem to indicate that there are only approximately 6 winners of any magnitude ($5,000 winning tickets). All other winnings in the number of 106,000 that the Lottery Commission gives out are winners of $2, $5, $10 or merely free tickets.

As the survey indicates,95.2% of those winners immediately re-invest their winnings for the purchase of more tickets; apparently attempting to win one of the 6 big prizes. Armed with this knowledge, State Lottery Commissions purposely space their tickets so that the "re-investors" are guaranteed to lose again.

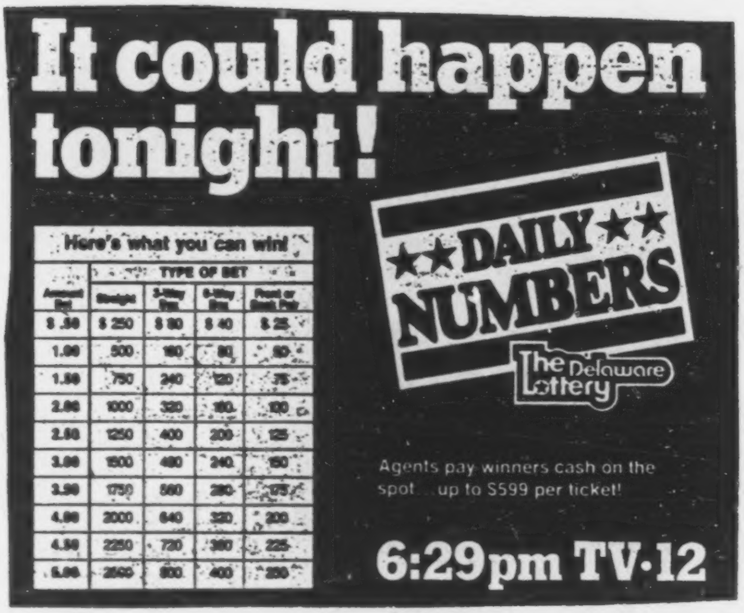
Two additional practices of the State Lottery Commission seem to be somewhat misleading with regard to the instant lottery games. First of all, there is never a single mention of how few big winners there are in the 1 million tickets on sale. There is never really any mention that a million tickets are available. Secondly, half the winners are purposely placed up front (in the first two weeks of the lottery game). The purpose of placing the big winners so early in the game is to give the impression that big winners are "coming all the time". In reality, by the end of the first two weeks, there are as few as 3 winners available beyond the $2, $5, $10 variety for the million tickets on sale.

IN SUMMARY, INSTANT LOTTERY GAMES GENERATE

MORE THAN 99% OF THE INSTANT LOTTERY PLAYERS MUST LOSE......

A survey of the 13 States with lotteries was made, and this was discovered to be a regular practice by State Lottery Commission Offices throughout the Country. Yearly Lottery Directors' meetings are held in order to devise advertising campaigns that will make losing look attractive and on how to guarantee that better than 99% of all players must lose.

NOTE THAT IN THE FOLLOWING ADS, NOT A SINGLE MENTION IS MADE OF THE ODDS AGAINST WINNING; NOR OF THE POSSIBLE HABIT FORMING NATURE OF THE GAMBLING REALITY; NOR IS THERE ANY MENTION OF THE PERCENTAGE OF LOSERS (MORE THAN 99%)



It could happen tonight!

Here's what you can win!

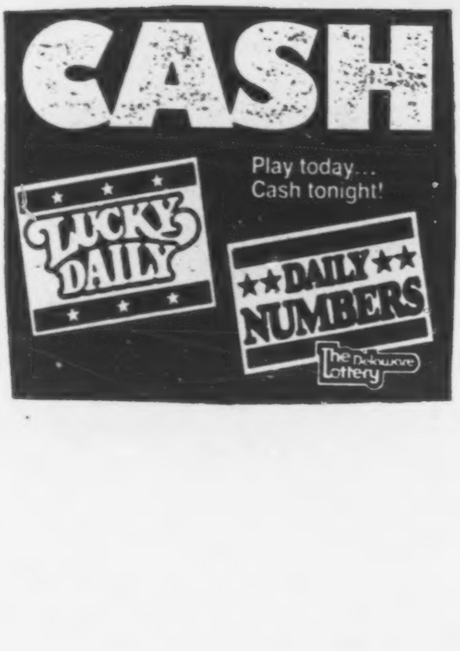
Amount Bet	TYPE OF BET			
	Straight	3-Way Box	6-Way Box	Front or Back Pair
$ .50	$ 250	$ 80	$ 40	$ 25
1.00	500	160	80	50
1.50	750	240	120	75
2.00	1000	320	160	100
2.50	1250	400	200	125
3.00	1500	480	240	150
3.50	1750	560	280	175
4.00	2000	640	320	200
4.50	2250	720	360	225
5.00	2500	800	400	250

★★DAILY★★ NUMBERS

The Delaware Lottery

Agents pay winners cash on the spot…up to $599 per ticket!

6:29pm TV·12



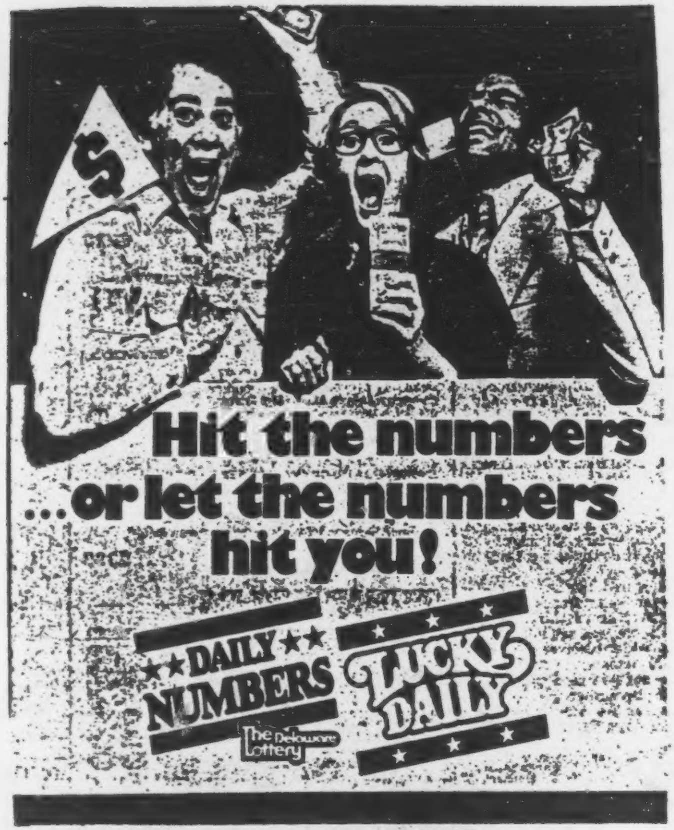
CASH

Play today…
Cash tonight!

LUCKY DAILY

★★DAILY★★ NUMBERS

The Delaware Lottery

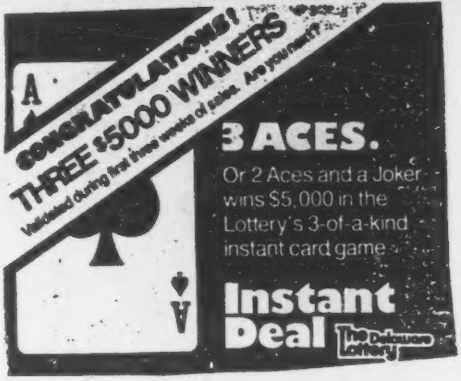


Hit the numbers
...or let the numbers
hit you!

★★DAILY★★
NUMBERS

The Delaware Lottery

LUCKY DAILY



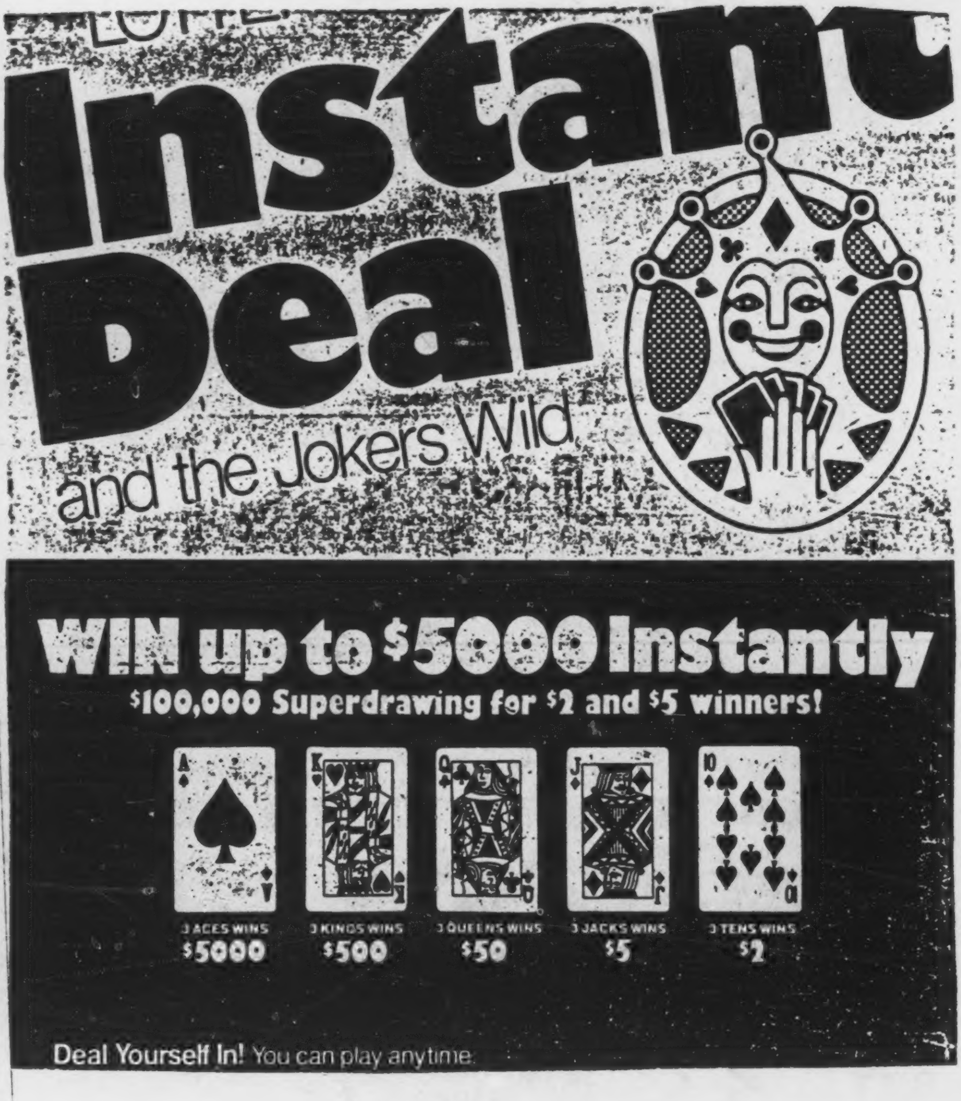
CONGRATULATIONS!
THREE $5000 WINNERS
Validated during first three weeks of sales. Are you next?

3 ACES.

Or 2 Aces and a Joker wins $5,000 in the Lottery's 3-of-a-kind instant card game

Instant Deal

The Delaware Lottery



Instant Deal

and the Jokers Wild

WIN up to $5000 Instantly

$100,000 Superdrawing for $2 and $5 winners!

3 ACES WINS $5000

3 KINGS WINS $500

3 QUEENS WINS $50

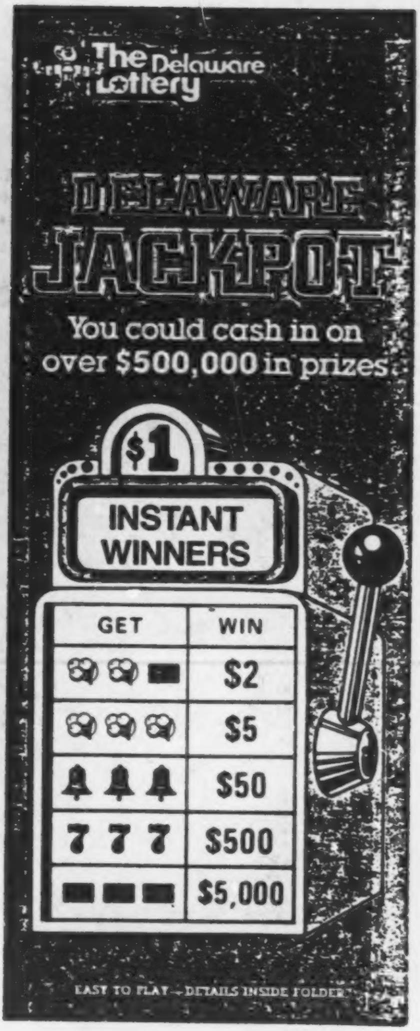
3 JACKS WINS $5

3 TENS WINS $2

Deal Yourself In! You can play anytime.

"All straight bets pay 500 to 1!"
★★DAILY★★ NUMBERS
The Delaware Lottery

Free "How to Play" folders are available at all Daily Numbers agents.


The Delaware Lottery
DELAWARE JACKPOT
You could cash in on over $500,000 in prizes
$1
INSTANT WINNERS

GET	WIN
🍒 🍒 ▬	$2
🍒 🍒 🍒	$5
🔔 🔔 🔔	$50
7 7 7	$500
▬ ▬ ▬	$5,000

EASY TO PLAY — DETAILS INSIDE FOLDER

★★DAILY★★
NUMBERS
The Delaware Lottery

Play here!
We pay here!

Over $8.1 million*
paid out to winners!

Placing Additional Lottery Bets With Winnings

Questions 5, and 9 were asked to attempt to measure the degree to which people may have won at all on their lottery bets. 76.2% said that they had won something (in all cases, less than $50 or merely free tickets). This response was interesting in that it was totally mathematically impossible. The State Lottery games are set up so that 76.2% of the persons could never win. Upon informal questioning by our researchers, it became obvious that the persons responding meant that sometime in their gambling careers they had hit (won); many of them admitted that their "hits" were from their illegal gambling.

Of further note on this issue; information from persons involved in the counseling of gamblers indicates that one of the most oft-recurring realities is that regular gamblers tend to lie consistantly about winning. Counselors believe that such lies are "necessary" in order for the gambler to "justify" his or her constant involvement in gambling. It would be difficult to justify involvement in a practice which made a loser out of you regularly.

#5 HAVE YOU EVER HIT THE NUMBER?
#9. HAVE YOU EVER WON? (instant lottery)

Question #10 was included in order to ascertain what the "winners" did with their winnings:

#10. DID YOU BUY MORE TICKETS WITH THE WINNINGS?
From the three socioeconomic groups
95.2% of the 962 persons answering said "YES".
100% of the Lowest Income Persons said "YES".

In some cases noted by our researchers, lottery agents encouraged persons to buy more tickets with winnings under the guise of winning "the big money" often mentioned in newspaper and radio ads by the State Lottery Commission. Small winnings are virtually ignored on the part of the State Lottery Commission advertising. The constant stress is on "hitting the big money".

DIRECT ADVERTISING CAMPAIGN TO URGE PERSON ON PUBLIC MONIES TO GAMBLE: A survey of local newspaper adds and radio commercials show that there are from 1½ to 2½ times more lottery advertising on the 1st and 2nd of each month than on any other day of the month:
News Journal: May 1st(3 ads)//May 2nd(4 ads)//May 15th(1 ac
June 1st(3 ads)//June 2nd(3ads)//June 20th 1
In increase in advertising volume on the state lottery appears to be structured to coincide with the arrival of public monies to recipients: welfare, social security..

Chapter IV.

THE INSTANT LOTTERY GAMES

From the figures developed from the questions related to the instant lottery games, it seems obvious that there is not much popular interest from the point of view of volume:

Questions: 6,7,8:

6. DO YOU PLAY THE INSTANT LOTTERY?--396 of 1,318 said "YES"
7. HOW OFTEN? ---------------------- 2.2 times per week
8. HOW MUCH DO YOU SPEND?------------$2.75 bet per week.

In a study conducted by Marvin R. Brams, Ph.D. of the University of Delaware, entitled "THE FAILURE OF THE DELAWARE LOTTERY", it is pointed out that not a single instant lottery game initiated in Delaware has succeeded from two important perspectives:

1. They never take in the revenue which is projected by the State Lottery Commission.
2. It always take much longer than projected by Lottery Officials to sell the tickets printed. In most cases, the full complement of tickets are not sold. The games are merely terminated and other forms of instant lotteries are created.

Dr. Brams states in his second study; "From Failure to Success" that the Delaware Lottery was "saved" by the daily numbers, not by any significant inprovement in the instant lottery games.

Twenty Lottery Agents who were interviewed stated that the instant lottery games are not successful in their estimation. The universal comments on the subject were that the instant lotteries were used to generate interest in state sponsored gambling. One game in particular which was a spin-off of the daily numbers was especially obvious. The game was created, according to 20 lottery agents, to satisfy the lottery agents who did not have lottery daily numbers machines,but who wanted to be part of the daily numbers drawing. The game required a person to buy a ticket with a predetermined number. If that number corresponded to the number chosen that particular night, the person was a winner. It paid less than the regular daily numbers bet and it deprived the player of the right to choose his or her own number. Ten lottery agents told our researchers that they actually steered their players away from the game in favor of the regular daily number purchase. The game was introduced with extensive publicity, but it died a quiet death of lack of interest. The death went virtually unnoticed by the Lottery Commission and the media. The game was initiated in early 1979 and was terminated in a few months; lack of participation.

Chapter V.

PARTICIPATION IN OTHER FORMS OF GAMBLING

Questions 14 and 15 were posed merely to get some sort of indication of the general gambling habits of regular lottery players.

#14. WHAT OTHER FORMS OF GAMBLING DO YOU DO?
Horse Racing// Cards// Bingo// Casino

Of the 1,484 who answered, 77.1% said they did; the largest group said "cards", followed by "horse racing", "bingo" and "casino".

#15. HAVE YOU BEEN TO THE CASINO IN ATLANTIC CITY?

Of the 1,450 who answered, 21.4% said that they had been to the casino in Atlantic City at least once in the last year. This finding falls in line with a recent market survey which stated that approximately 20% of the adult population of cities within a 200 mile radius of the Atlantic City casino will visit there at least once.

In this connection, there is evidence from the Delaware Council on Problem Gambling and from the Wilmington Chapter of Gamblers Anonymous that there is a marked increase in instances of compulsive gambling directly related to the proximity and promotion of casino gambling in Atlantic City, New Jersey. Delawareans are frequenting the Atlantic City casinos.

Chapter VI.

SOME FACTORS ON COMPULSIVE GAMBLING AND THE STATE LOTTERY

Two questions were placed in the survey in order to get some measure of information on the subject of compulsive gambling from Delawareans who gamble regularly.

#17. DO YOU UNDERSTAND THE TERM COMPULSIVE GAMBLING? (Our researchers then asked the person to actually define it, and recorded only those persons who correctly defined it)

Of the 1,362 who responded, 70% correctly defined the term compulsive gambling.

#18. DO YOU KNOW ANY ONE WHO IS A COMPULSIVE GAMBLER? (Our researchers reminded them of their definition).

Of the 953 who responded, 32% stated that they definitely knew persons who fit the classic definition of compulsive gambler. One such person who said he works at Delaware Park Race Track said that he knows "many of them who work at the track". Of the 304 persons who said that they knew compulsive gamblers, according to the definition, 11 of them described themselves as compulsive gamblers.

According to persons connected to the counseling of compulsive gamblers through Gamblers' Anonymous in Maryland, New Jersey, Pennsylvania and Delaware, the connection between state sponsored lotteries and compulsive gambling is as follows: Approximately 10% of the persons who "pick up the gambling habit" from playing the state lotteries, will probably go on to develop the "progressive behavioral disorder" called compulsive gambling. As the person becomes a more sophisticated gambler he or she will drop the state lottery betting, and move on to other forms. By the time he or she might be a compulsive gambler he or she will no longer be gambling on state lotteries, but such persons may be starting their gambling habits on the state gambling. Most experts in the field state that we are probably 8 to 10 years away from experiencing the full impact of state sponsored gambling on compulsive gambling.

There are two examples which showed a direct relationship between the state lottery and compulsive gambling. Two admitted compulsive gamblers have stated they their problem became pronounced and their condition worsened because of their involvement in state lottery gambling. The reason given by such persons was that when state sponsored gambling was initiated, it provided so many more opportunities and the impersonal nature of it allowed one to gamble excessively without detection.

This survey could not be used as a valid vehicle to the study of compulsive gambling, but such a survey should be undertaken.

Chapter VII.

LOTTERY SYSTEM EVALUATIONS BY STATE LOTTERY AGENTS

In order to provide as much information as possible, our researchers spoke to each lottery agent and gave the agent a letter of introduction about the survey (copy enclosed).

The purpose was to gain as much cooperation as possible. In some cases that approach worked and the agents were extremely cooperative and valuable. Even the non-cooperative lottery agents provided important information, perhaps, unintentionally.

The following specific comments were made by a collective group of 44 agents of the 55 visited:

1. "We don't make enough commission on this thing. The illegal runner gets 30% from his bookmaker and all we get is a lousy 5¢ on the dollar".
2. "The advertising should be paid for by the State, not the individual agent".
3. "There should be more small prizes and fewer big prizes, to draw more people in".
4. "We should get a cut of the winning tickets that we cash for winners".
5. "The Lottery Commission is not open to good suggestions that we lottery agents make".
6. "My gambling money is up but my other sales are down".
7. "The Lottery Commission does not give us enough information about things".
8. " I'm doing the State a favor. This thing is more trouble than it is worth".
9. "I feel these games are taking advantage of the poor".
10. "The Lottery Commission does not tell people enough information about what a rip-off these games are".

Two lottery agents in the City of Wilmington said that illegal gambling operations have opened up right near their establishments in direct competition to the legalized state lottery.

At three locations the person working at the lottery machine was seen punching out a number of tickets for themselves. They were admitted heavy lottery bettors themselves. One of the persons admitted to the fact that she had become a heavy daily player only after the institution of the legalized state gambling.

Participation in the Survey by Lottery Agents

Some lottery agents were most cooperative and aided fully in the survey operations. Others were mildly reluctant, but gave adequate cooperation. Still others were totally neutral and did not commit themselves either way. Some however, were vehemently against our efforts and flatly refused to cooperate. A few of these even issued some veiled threats of potential physical force if our researher did not leave the premises. Others threatened our researchers with arrest; even after they had been aprised of the legality of the venture.

Three lottery agents said that they had checked with the State Lottery Commission, and that they were told that we (the researchers) were against the agents.

There was a general fear at the Lowest Income Area locations that our researchers might be somehow connected to a Welfare Department endeavor to find out how many welfare clients were gambling with welfare money. This was told to our researchers by both the lottery agents and some neighborhood persons.

Lottery Agents Who Were Most Cooperative In Helping the Survey

Mom's Smoke Shop, Delaware Avenue, Wilmington
Eddie's Gulf Station, Wilmington
Printz Wine and Liquors, Claymont
Angel's Market, Newark
Bob's Groceries, Newark
Books and Tobaccos, Wilmington
Buffet Shop, Wilmington
O'Connor's Pharmacy, DuPont Building, Wilmington
Comptens Liquors, Wilmington
Garfinkels Liquors, Wilmington
Jack's Country Maid, Newark
James and Jessie's Barber Shop, Wilmington
Keil's Liquors, Wilmington
Lincoln Smoke Shop, Wilmington
Manor Pharmacy, New Castle
Milton Liquors Wilmington
Park and Shop, Newark
Plaza Deli, Wilmington, Branmar Plaza
Van Buren Market, Wilmington
Windsor Food Market, Wilmington
Donato's Pro Shop, Claymont
Chestnut Run Liquors, Wilmington
People's Market, Wilmington

Lottery Agents Who Were Neutral About Our Efforts But Who Cooperated

Airport Liquors, New Castle
Bantam Market, New Castle
Happy Harry's, Middletown
Kitty's Luncheonette, Delaware City
Levan Liquors, Wilmington
Union Street News, Wilmington
Unit Street Market, Wilmington
Wassam's Market, New Castle
Steve's Tavern, Centerville Road

Lottery Agents Who Were Reluctant, But Who Did Not Hinder The Survey

Dom's Delicatessen, New Castle
Franklin News Center, Wilmington
Maapco Books, Fairfax Shopping Center
Newark News Stand, Newark
Park Pharmacy, Wilmington
Ray's Nitty Gritty, Wilmington
Salvatore's Liquors, Wilmington
Cutrona's Shellpot Liquors, Wilmington
Tom's Subs, Wilmington
Faulk Run News Center, Faulk Rd.
Mike's Delicatessan, Philadelphia Pike

Lottery Agents Who Were Antagonistic and Who Forbid Our Researchers to Conduct the Survey

Brookside News Center, Brookside Shopping Center, Newark
Darley Liquor Mart, Claymont
Miller Road Liquors, Miller Road, Wilmington
Yetters Restaurant/Liquors, Philadelphia Pike, Claymont
Matson Run News Center, West Matson Run, Wilmington
Price Bowling Lanes, Kirkwood, Wilmington
Johnny's Supermarket, Maryland Avenue, Wilmington
Golde's Delicatessen, Wilmington
Economy Cigar Store, Wilmington
Tabacco Village, Concord Mall
Penn Bantam Market, Newport Gap Pike
Hare's Corner Liquor, New Castle
University Liquors, New Castle
Hank's House of Liquors, New Castle

Lottery Agents Who Have Dropped Out of the State Lottery

The following agents dropped out of the state lottery program and asked to have their lottery machines removed.
In New Castle County:
Shop N Bag, New Castle
Smoke Shop, DuPont and Delaware Avenue, Wilmington
Rite Aid Drug Chain. 14th and DuPont Streets, Wilmington
Ok Shop N Bag, Possum Pk. Mall, Newark
Malins Market, College Avenue, Newark
Lincoln Barber Shop, Lincoln Street, Wilmington
Kreston's Liquor Mart, Concord Avenue, Wilmington

The Reasons Given By The Former Lottery Agents Mentioned Were:

1...There was not nearly enough added business to offset the clutter and confusion in the store.
2...5% of each ticket sold is not nearly enough commission.
3..."The class of people it brought in was destroying my business". There was a big rise in shoplifting".
4...It drove away regular customers.
5..."For all the trouble it cost, I wouldn't bring it back, if they gave me 50¢ on the dollar as a commission".
6...The new take-over did not permit its stores to offer gambling to customers.
7..."There was not a bit of profit considering all the work that it took to operate it".
8..."State Lottery Officials started harassing me about pushing more sales and stepping up my 'take' ".
9... "Spending customers would see the long lines and leave before making purchases".
10..."I saw some of my regular customers spending their food money on gambling".
11..."Some of my people were becoming excessive gamblers".

Most of those agents who had the machines removed, did so because it did not produce enough income to warrant it. Two did express real concern for the human weakness reality of offering gambling to people who cannot afford it. Two were not satisfied with the operation on the part of the State.

Four Lottery Agents interviewed who are still functioning as lottery agents did express concern about the "rip-off" factor of the lottery, and also expressed concern about the "wrong type of people" who were gambling regularly. These same four lottery agents said that they were considering having the lottery games removed from their businesses.

Chapter VIII.

ILLEGAL PRACTICES ON THE PART OF SOME LOTTERY AGENTS

In the course of the six month research project, our researchers made numerous on-site visitations to lottery locations. During those survey visits, the researchers were in the immediate area of the lottery machines themselves in many cases. In fact, the survey was taken right next to the lottery machine at some locations.

There is a law prohibiting the sale of lottery tickets to minors, as that is defined in the State of Delaware. This was violated at the following locations at the times and dates indicated:

Lincoln Smoke Shop----9 children were sold tickets
4th and Lincoln   on May 8, 1979 between 12:20--2:45pm.
Wilmington

Happy Harry's --------------5 children were sold lottery
Middletown Shop. Center   tickets on July 16, 1979 between
Middletown   3pm and 6:30pm.

Bantam Market---------------3 children were sold lottery
Basin and Frenchtown Rd.   tickets on May 31, 1979 between
New Castle   5pm and 6:25pm.

Franklin News Center--------2 children were sold lottery
4th and Franklin   tickets on June 18, 1979 between
Wilmington   4:15pm and 6:15pm.

Buffet Shop-----------------3 children were sold lottery
2307 Newport Pike   tickets on July 11, 1979 between
Wilmington   3:20pm and 6:20pm.

It is contrary to law to allow credit for betting on the state lottery. One lottery agent employee admitted that a woman leaves a list of 175 different numbers with the lottery agent employee. The woman instructs the employee to bet each of the 175 numbers each and every day, for $1 each. It is reported that she comes into the store once a week (reported to be Tuesday), and "settles up" with the agent. "Settle up" is the term used by gamblers who meet with their "bookmakers" and exchange the money which has resulted from betting transactions. The woman is reported then to be betting $175 per day for the six days of the daily numbers week. This would appear to be an illegal act on the part of the lottery agent and/or employee in question.

Similarity of Policies and Practices Between The State Lottery Commission and Organized Crime

Admittedly, this comparison could not be determined through the research project itself, but documented material available on the policies and practices of verified Organized Crime gambling operations have been established by studies under the supervision of the Organized Crime Control Act of 1970 and numerous academic material on the subject of Organized Crime.

Methods and Procedures of Organized Crime Controlled Gambling Operations Compared to Methods and Procedures of the State Lottery Commission in Delaware:

Organized Crime:	Delaware State Lottery Commission:
1. Locate gambling in the poorest neighborhoods to the greatest extent.	1. Has placed 31.1% of the N.C.C. lottery machines in a poor area of only 11.8 of the N.C.C. population.
2. Establish an "army of runners" to front for the operation and try to use respectable establishments.	2. State Lottery Commission ha taken established businesses and has made them into gambling "runners".
3. Pay the "runners" a percentage of the "take" and keeps that "take" low enough so the "runners" try to keep promoting more and more business to keep their percentage coming on a regular basis.	3. The State Lottery Commissio pays the runner a 5% of the agent's "take". Agents are required to do their own independent advertising in order to keep the "business" flowing.
4. When "runners" are not producing enough business the organized crime bosses coerce them into more intense efforts to promote it.	4. The State Lottery Commissi does contact agents who are not "producing" business. Some agents have lost their machines because they did not raise their daily "take".
5. When organized crime gambling bosses are questioned about their acts, they use a standard set of arguments to support their point: a) "every body is doing it any way" b) "nobody gets hurt"	5. On television interviews in 1978 The Delaware State Lottery Commissioner used the same exact arguments.

6. When there are too many plays on a particular daily number, organized crime bookmakers refuse to take any more bets on that number for that particular day.	6. When the legalized daily numbers were first introduced, the State Lottery Commissioner of Delaware said; "Just like the organized crime operatio we will reserve the righ to call off a number which is too heavily played."
7. On some days the illegal bookmaker loses; when there is an unusual big "hit" on a particular number.	7. On certain days the Stat Lottery Commission loses substantial amounts of money, when a "popular" number hits. Just a few of those dates are listed here: 4/25/78--State lost $4,256 4/2/79---State lost $11,186 5/23/79--State lost $29,746 Actually the State has lost on many days. Thes are just a few samples we were able to discover
8. When asked directly for information on gambling operations, organized crime gambling bosses usually ignore such requests or lie about the information.	8. For months requests for information were ignored by the State Lottery Commission. Only after the Counsel for our Council wrote, did we get a limited response. More detailed informatio was not provided in letters of April, May, August. We requested detailed public information which has not been provided about questionable expenses by the Lottery Commissio This information will be discussed in Chapt.XI On television in 1978 the State Lottery Commissioner made some untrue statements about participation in the lottery: stating that the poor were not participating any more than other segments of the community---an untruth.

In this regard of the relationship between Organized Crime and State Lottery Commission practices, it must be recalled that until the State got into the gambling business, only Organized Crime was in the business. That means that Organized Crime set the tone for such operations, and apparently State Lottery Officials imitated those practices.

Chapter IX.

STATE, COUNTY AND CITY GOVERNMENT AND THE GAMBLING ISS

Over the last two years (from December 1977 up to the present time), all three branches of government were specifically approached on various matters pertaining to the gambling issue. In each case the requests centered around various aspects of the issue: education, research, treatment, governmental responsibility. The reactions were as follows:

State Government: The Governor's Office was contacted on four occasions, requesting that Office to undertake a study of the gambling issue; asking for backing for a bill dealing with the gambling issue; asking for a meeting to discuss certain matters related to the gambling issue. All requests were denied. The position of the Governor's Office was that "The Governor's Office does not directly support bills, but merely decides on the signing of bills already passed". Many examples seem to indicate that this statement was far from true. The Governor's office also stated that studies on such things as the gambling issue are not under the authority of that office. This too was seen as not entirely true, in that many studies are undertaken on the part of the Office of the Governor when they believe the matter warrants attention. In general, the Office of the Governor of Delaware is one of "hands-off" on the gambling issue. They do not become involved with any aspect of the entire topic. This particular position is not common among those other states with legalized gambling ventures. During the survey we contacted the States of Illinois, Michigan, Ohio, Pennsylvania, New Jersey, Maryland, Connecticut, Rhode Island, Massachusetts, New Hampshire, Maine, Vermont and New York. In all those states, the Office of the Governor takes a much more active role on the gambling issue: formation of gambling commissions, initiating studies, some regulatory and/or supervisory responsibility, pro or con support for or against bills related to gambling. The Delaware Governor's Office appears to have less involvement in the gambling issue than any other State with legalized gambling ventures under state sponsorship in the entire ountry. The State of Delaware has more state sponsored and/or endorsed legalized gambling ventures than any state in the country, when one considers the small population compared to other states with legalized gambling. This includes Nevada. Nevada state sponsored gambling is primarily for the tourist. In Delaware, the gambling is almost exclusively for Delawareans

The City of Wilmington: The City of Wilmington was approached on five occasions to deal with various aspects of the gambling issue, as it relates to the City. All such efforts were refused. The City refused, through the Office of the Mayor to meet and discuss a most important study from Connecticut on the Jai Alai issue. The City government refused to fund a grant to deal with the issue. The City Council of Wilmington put aside a grant-in-aid request. The matter was disposed of by certain City Council members because the organization requesting the grant was "opposed to jai alai" according to several City officials. City government was actively involved in working for the bill to legalize jai alai. Official City Government refused to accept and seriously consider counter jai alai positions taken by responsible members of the community. According to reports from City Government, the Mayor of Wilmington refused to attend and make a scheduled presentation at the Wilmington United Neighborhoods Congress in 1978. Wilmington United Neighborhood Congress members had adopted a resolution against jai alai. The Mayor reacted to the democratic vote by breaking ties with WUN on that occasion over that issue. The Mayor's Office refused to answer letters and meeting on a study of the gambling issue.

County Government: New Castle County government departments were approached on all levels on various matters pertaining to the gambling issue. On every single occasion, County Officials responded and gave the matters at hand total cooperation. The County Executive responded to every letter sent, making proper referrals. County CETA Officials approved a grant to study the issue (the source of this report). County Council approved and otherwise cooperated in various functions related to the gambling topic: members of County Council attending meetings, answering letters, returning phone calls with positive responses. County Council, County Executive, and County CETA Officials have all responded positively with a followup grant for 1979-1980 to do an action program in the schools and other areas of the community on the gambling issue. County Government is virtually without any direct responsibility for the gambling reality, yet, it is the only area of local government which has exhibited genuine concern, backed up by positive action on the topic.

Chapter X.

COMMUNITY AWARENESS ON THE GAMBLING ISSUE

During the last two years the Delaware Council on Gambling Problems has attempted to raise consciousness on the gambling issue in general and on the problem of compulsive gambling in particular. During the survey the Council intensified its efforts and did as complete an examination as possible on just how aware the community was on the gambling issue in general, and on state sponsored gambling and compulsive gambling in particular. The following segments of the community were examined with the recorded results......

HUMAN SERVICE AGENCIES: In New Castle County there are approximately 225 agencies which can be labeled "community service agencies" based on what they offer. All such agencies were contacted and the number was reduced to 115 when the added function of "counseling" was considered. Of the 115,only one, The Delaware Council on Gambling Problems, deals with the gambling issue directly. Of the remaining 114, 49 indicated that they had virtually no knowledge of the impact of the gambling issue on their function and had virtually no knowledge of the entire topic of compulsive gambling. Of this number, 83 indicated that they needed and wanted educational information and/or training on the subject. They admitted to possible increased instances of having to deal with this reality, as a result of a marked increased interest in gambling. Eleven of these agencies said that they had instances of compulsive gambling in their counseling functions at the present time.

MENTAL HEALTH COMMUNITY: Public and private mental health organizations were contacted and/or visited over extended periods of time. The results were mixed. The State Division of Mental Health has been the most cooperative in this entire issue. They sponsored several educational meetings. Through the State Bureau of Alcoholism and Drug Abuse, the Division of Mental Health has been cooperating in this matter by means of training, grants and support for bills which will deal with this issue. The personnel of this organization, and in much detail through the State Troubled Employees Program has been most helpful in bringing this matter to the awareness of the mental health community. Federal officials in HEW have also been cooperating with the efforts being made in Delaware. The Mental Health Association of Delaware has been contacted several times by phone and mail to consider this topic. For approximately two years no responses have been forthcoming from that organization. The Southern New Castle County Mental Health Center has been most cooperative in being educated and involved in this matter. Several private psychologists have registered much interest in the topic, as a result of increased cases coming to their attention. Judging by the attendance by 22 agencies at a compulsive gambling conference on August 28, 1979, interest by the mental health community may be on the rise.

LAW ENFORCEMENT COMMUNITY: Just about every law enforcement agency in the State was contacted on the subject of offering educational information and/or training on this issue. There were no responses. Law enforcement agencies in New Castle County have taken virtually no action in the last two years on the matter of organized illegal gambling operations flourishing in this area. Information we have received from problem gamblers indicates that there is much evidence to support the existance of an extensive organized gambling operation here in New Castle County. Police have not made a single significant arrest on this subject in the last several years. Several conversations with law enforcement personnel and the Attorney General's Office indicate some note of concern about the weaknesses of the State Lottery gambling operations and/or the illegal gambling ventures going on continuously. Law enforcment personnel on the State and County police have expressed no concern about how compulsive gambling might be related to certain crimes they are investigating. Unlike their attitudes on the alcohol and drug issue, they do not wish to consider compulsive gambling as a mitigating circumstances in their criminal investigations. The Attorney General's Office did express some interest and did sponsor a meeting on the topic. No significant action has resulted to date.

DELAWARE COURT SYSTEM: The Delaware Court System in New Castle County has begun to show definite interest in accepting the reality of this issue. Some criminal court Judges have assigned certain defendents to the compulsive gambing counseling program and have honored reports and evaluations in such cases. The Public Defenders Office has especially used the services available on this subject. Some presentence officers have asked for input in certain cases. Judges seem willing to take stock of compulsive gambling in their sentencing deliberations. The Family Court especially has shown great interest in the entire subject. The Family Court Counselors have made significant counseling referrals of persons under their supervision. Family Court administrators have expressed an interest in education and training and have sent court personnel for additional education on the topic. Family Court Judges have allowed evidence on this subject to be given in certain cases before them.

THE CORRECTIONS COMMUNITY: There is not a single program of rehabilitation in the Delaware Corrections System on the subject of compulsive gambling; even though a percentage of their inmates have compulsive gambling problems. Because of in-house administrative problems they have not been receptive to pursuing the issue to date. The Adult Corrections Probation Department has shown growing interest in the relationship between gambling and their clients.

CORPORATE COMMUNITY: In virtually every case the corporate community has been unresponsive to even being educated on the topic of state sponsored gambling and/or problem gambling. The following companies were all contacted by phone and mail: DuPont, Hercules, ICI, Chamber of Commerce, the Banking Community. There was an offer to discuss this topic, offer training, and generally make them aware of the gambling issue. In every case, they have refused to consider the matter. In most cases, there was no response at all. Those who did respond indicated a lack of interest in the subject. Greater Wilmington Development Corporation and various other business associations were also contacted without results. Some companies which did respond expressed the fact that they did not have any instances of compulsive gambling. The Problem Gambling Counseling Center has information which shows that some of these companies do indeed have this problem among their employees. Several such organizations indicated that they were highly in favor of increased gambling as a means of economic development, and did not want any information which may contradict that premise.

RELIGIOUS COMMUNITY: More than 340 churches and/or religious organizations were contacted on this issue. Of the 340, to date, 54 have responded; representing all major religious groups: Protestant, Catholic and Jewish:

45 Protestant groups responded//	40	against State gambling
	6	in favor/
	5	indifferent/
	4	had compulsive gamblin problems/
	18	have taken action on their positions/
5 Catholic groups responded//	0	against state gambling
	1	in favor/
	4	indifferent/
	2	had compulsive gamblin problems/
	0	have taken action on their positions/
4 Jewish groups responded//	0	against state gambling
	1	in favor/
	3	indifferent/
	1	had compulsive gamblin problems/
	0	have taken action on their positions/

Protestant Church groups have been continuing to want informational presentations made to them on the subject of State gambling. Catholic Organizations have refused offers of presentations. Jewish organizations have not been contacted for presentations to date.

PROFESSIONAL ORGANIZATIONS/ CIVIC GROUPS/ FRATERNAL GROUPS:

As evidenced by the 287 presentations made over the last two years, it is apparent that more and more members of such groups are anxious to be informed on the issue of state sponsored gambling and the results therefrom. Each presentation has been followed by questions and comments. In each case, persons ask why State Government is in the gambling business if there are so many negative aspects to it. The general conclusion is that, since the true negative information is generally not known, community members do not have the true picture of the entire issue. One organization which has not been receptive to vital information on the subject deserves mention because of how gambling is directly related to many of the functions of its members: The Delaware Bar Association. More than 150 of the 247 referrals we have had with problem gamblers have serious legal problems and/or legal family problems requiring attorneys. Some local criminal cases are directly related to the gambling problem. In many of those cases the attorney does not know the real problem. We have made attempts over a two year period to offer a presentation to that group; but such efforts have met with virtually no interest on the part of the Bar Association. Members of the Bar have been in the forefront of new legalized gambling issues, and thereby would seem to want as much information as possible. We have discovered through the survey that the Bar Association has a minimum of knowledge on the subject.

WATCHDOG ORGANIZATIONS: Two major local watchdog organizations were contacted over a period of two years; with renewed efforts during the survey period. Unfortunately, they have both ignored all communication; not even responding to letters. These groups are Committee of 39 and Common Cause. During the survey, we have raised some consumer protection issues regarding the appropriateness of state gambling as a consumer product. These questions and requests for meetings have been ignored. Legal aid also indicated a lack of concern after a meeting on the topic of some legal moves to deal with the issue.

FUNDING AGENCIES/ORGANIZATIONS: 36 possible funding sources were contacted in a two year period to consider various proposals related to the gambling issue. The Delmarva Ecumenical Agency, Methodist Action Program, Kutz Foundation and County CETA have responded favorably. Corporation foundations refused to become involved for reasons already stated in the corporate section. Private foundations (22 of them) have turned down proposals. The primary reason for rejection appears to be a lack of knowledge on the entire topic. United Way has turned down one request in 1978 and a second in 1979: non-supportive. To date the issue has been funded to the amount of $96,865: County CETA (2 grants---$76,490)// Delmarva Ecumenical Agency ($6,000)// MAP ($3,000) // Private Donors ($11,481). With the exception of CETA no funds were for salaries.

THE MEDIA: Certain media sources have taken discernible positions on the gambling issue. State lottery officials do use most areas of local media for advertising gambling. This may or may not influence some media positions on the topic of gambling. A survey of local media vehicles indicates that no local radio station appears to be aware of a definite National Association of Broadcasters Code on Lottery Advertising Guidelines. This policy, effective January 1975, does appear to be violated on occasion by some local gambling advertising: "commercials may not unduly exhort people to gamble"; "may not indicate what fictitious winners may do, hope to do or have done with their winnings"; "may not use unqualified or inaccurate language regarding potential winners"; "pot of gold"; "buy a ticket and be a winner"; "may not utilize approaches which praise people who buy lottery tickets, or denigrate people who do not buy tickets." Most radio stations are not aware of these restrictions; and do not consider such issues in allowing themselves to be used as an advertising vehicle for the state lottery. All local stations surveyed: WILM, WDEL, WAMS, WNRK do give the daily number of the day repeatedly in their news broadcasts. The survey was unable to find if such repeated exposure was part of an "advertising deal" between the State Lottery Commission and the radio stations in question. All the radio stations mentioned have allowed for at least one presentation speaking against gambling on their interview and/or talkshows. WILM has permitted six such shows. However, WILM also does more advertising and number announcing than any station in the area.

The Morning News and the Evening Journal were closely examined on the gambling issue. The papers in question have written approximately 27 pro gambling editorial pieces over the last two years. When the editorial persons were approached through one meeting, 9 phone calls and several letters, it was determined that the paper has adopted a very pro gambling position: writing in favor of increased state sponsored gambling, promotion of the jai alai gambling for Wilmington, favoring public money aid for horse racing, strong support for the legalization of gambling for non-profit organizations. The paper's officials have only allowed for the "otherside of the issue" to be written after much pressure from anti-gambling forces. During several conversations and meetings with newspaper officials it was admitted by such officials that they had not examined hardly any of the objective, anti-gambling information by commissions and private groups, before adopting the pro gambling position.

The pro gambling posture apparently taken by the Morning News and Evening Journal is not restricted to editorial views. There is some indication that the coverage of the news on this topic has been slanted toward a pro gambling position. More than 100 negative gambling stories off the AP and UPI wires were never used by the local papers. Whereas, more than 15 pro jai alai stories were used. A very negative editorial story by a Gannett News Service person was printed only after a pressure-group type meeting took place between four members of the Delaware Council on Gambling Problems and the Publisher of the News Journal in 1978.

Another indication of the pro gambling position taken by the News Journal seems somewhat obvious in that local, acknowledged experts from the Delaware Council on Gambling Problems are not consulted or interviewed when news stories are done on the gambling issue. On 12 occasions within the last year gambling stories were done which indicated the pro side of the issue, judging from the persons quoted.

Although ten papers have done stories on the work of the Delaware Council on Gambling Problems from New York to Florida, to California, the News Journal has never done a piece on the work and goals of the Council, although it is a local agency. A local official of the Council delivered a presentation at a large gambling conference in Reno in December of 1978. More than 100 papers picked up the story from the AP wires; the News Journal did not.

Although it would appear that there could not be a "conspiracy" on the matter, since that would presume an unrealistic amount of in-house "cooperation", there does appear to be evidence of: A Very Pro Gambling Editorial Policy// A Failure to Carry Stories Which Show the Negative Side of Gambling// A Failure to Use a Local Source of Expertise on the Negative Aspects of Gambling.

One final point must be made on this aspect of the survey. During the six month period, we contacted all 13 states which do have state sponsored legalized lotteries. Delaware is the only state whose media did not do an investigative news story on the realities of legalized state sponsored gambling. The News Journal has never done a story on the reality of organized illegal gambling is this area either; also a difference from the other 13 States which do have gambling by the state.

Bill Frank, an independent columnist for the News Journal, has been an exception to this survey finding. He has done several objective items on the pros and cons of the gambling question. He writes independently of the paper's official policy, however.

WHYY Channel 12 was also surveyed and certain basic facts became available: the television station houses the drawing of the daily number each evening at the WHYY facilities. A certain "relationship" has developed between the station and the Lottery Commission. There has never been a single contradiction or questioning of what the Lottery Commission releases to Channel 12; although such information was questionable. Channel 12 has refused to broadcast contradictory information when approached by the Delaware Council on four occasions. Channel 12 has never done any type of investigative report on the gambling issue, as opposed to many stories on drug and/or alcholism issues. Not a single negative story has ever been reported about state gambling by WHYY.

Chapter XI.

THE STATE LEGISLATURE AND THE GAMBLING ISSUE

An examination of records since 1975 have shown a definite pattern of a pro gambling posture on the part of the Delaware State Legislature. With the exception of the constitutional change to allow the gambling game of jai alai in Wilmington in 1977 and 1978, the State Legislature has supported virtually every gambling item which came before it, without any significant open discussion on the issue. Such votes were: legalization of state sponsored gambling on lotteries and complete failure attempts, such as the legalized football betting of 1976. In that connection the Legislature also voted $375,000 of public money to "pick up the tab for the football betting failure." They also voted on millions of dollars in appropriations and/or tax breaks for a failing Delaware horse racing industry. Horsemens' Association allocations are easily voted in. The gambling industry is known to be one of the most accomodating in Dover; literally being successful on every recorded vote. Some evidence has been produced to show that the racing industry especially has returned certain favors to legislators with jobs for relatives and political friends, as well as some entertainment functions for legislators. Some legislators hold official positions with gambling interests: race track presidency, for instance. Other legislators hold stock in gambling establishments and own race horses. Even the jai alai bill, which did finally fail by one vote in 1978 was positively passed on five previous occasions; although failin in a final Senate vote on the last day of the legislature in 1978. There have never been open hearings on any gambling legislation; although open hearings have been held on almost every other category of legislation.

Although the State Legislature has passed virtually every gambling bill, the Legislature has not enacted a single item of regulation, control, and/or supervision of gambling practices here in Delaware. Of the 44 states with some form of legalized gambling, Delaware is one of few which has no gambling regulatory body. Of the 13 States with state lotteries, Delaware is the only one without some direct supervision and/or control over the policies and practices. Delaware has more direct gambling-connected legislators than any of the other States surveyed—considering the ratio factor.

The State Legislature of Delaware has neglected to officially deal with any of the weaknesses of the gambling reality: no investigation of the weaknesses, and failure to deal with the casualties---compulsive gambling. Two bills in the 1978-1979 legislative sessions were introduced on the gambling issue to deal with the weakness. Both were defeated by wide margins. Millions are allocated for the alcoholism addiction and drug addictions; none on the compulsive gambling issue. The survey showed that there is an unofficial legislative move to correct this neglect in 1980.

Chapter XII.

RATIONALE GIVEN BY PERSONS WHO DO NOT GAMBLE

In order to gain some insight into why non-lottery gamblers refuse to play, we conducted a mini survey of 222 persons who don't gamble on state lottery games.

Persons were approached at various locations in New Castle County by our researchers. These were not at lottery locations. Persons were asked if they gambled on state lotteries. If they said; "no", they were asked a few additional questions:

"DO YOU PLAY THE STATE LOTTERY GAMES"?

"WHY DON'T YOU PLAY"?

Of the 222 persons who answered, the following categories were constructed:

81 persons said they didn't have the time or interest.

59 persons said they just didn't have money for gambling.

51 persons said that they thought the type gambling offered by the state was inadequate.

25 persons said that they preferred to engage in other forms of gambling; not the lottery.

5 persons said that they feared the habit forming potential of gambling, so they stay away from it.

1 person said that gambling was immoral.

Chapter XIII. CONCLUSION
FAILURE OF THE STATE LOTTERY

The survey facts to be discussed in this chapter do allow for a value judgement which indicates a failure of the State Lottery. Such an evaluation can only be discussed objectively by MEASURING THE STATE LOTTERY RESULTS AGAINST THE ORIGINAL GOALS WHEN LEGALIZATION WAS INITIATED.

Stated Objectives of the State Lottery Measured Against the Reality of the Results:

State Lottery Rationale: TO RAISE A SIGNFICANT AMOUNT OF MONEY FOR THE STATE TREASURY

The Reality: The state lottery has never raised more than .0057 of the yearly state budget, (significantly less than 1%)
In January 1979 the Lottery Commission released a report which stated that the lottery has produced $7,356,013 since 1975. That amount, when compared to the budgets for those years($2,215,000,000) is .00332 of the budgets in question.

THE STATE LOTTERY IS CONTRIBUTING AN INSIGNIFICANT AMOUNT OF MONEY TO THE STATE.

There is a significant amount of overhead for an agency whose sole function is to raise "significant" monies for the State:
Lottery Commission Budget: $1,029,700

- Salaries and Wages----------$229,700
Salaries--Overtime----------$ 5,000
Other Employment Costs------$ 46,400
Personal Services-----------$179,700
Travel----------------------$ 7,600
Contractual Services--------$369,200
Supplies--------------------$ 71,400
Capital Outlay--------------$ 3,700
Bank Commissions------------$ 70,000
Agent Refunds---------------$ 18,000
Central Data Processing-----$ 29,000

The Lottery Commission would not release an explanation of "personal services" and "contractual services", although we requested same in conjunction with the survey.

It has been learned from several official sources that the "PERSONAL SERVICES" item in the budget refers to a "lifetime" contract which guarantees $179,000 to a consultant. This amount is to be paid to the consultant each year whether or not the State makes enough to cover it.

State Lottery Rationale: TO BE A PAINLESS FORM OF TAXATION, EQUALLY BORNE BY A BROAD SECTION OF THE COMMUNITY

The Reality: The survey clearly indicates that it may be a form of taxation, but it is definitely REGRESSIVE TAXATION, in that the persons who can least afford it, are paying it; while those who could afford it, are not indulging.

The state lottery takes in an average of $34,000 per day (before expenses are calculated). In fact, more than 81.5% of that daily "take" is coming from the persons from the lowest income and second lowest income areas of New Castle County.
POOREST PEOPLE BETTING AN AVERAGE OF $27.30 PER PERSON, PER WEEK.

State Lottery Rationale: TO BE A RESPONSIBLE, STEADY, CONSISTANT SOURCE OF STATE REVENUE

The Reality: First of all, the success of the lottery is based on Delawareans losing money.
Secondly, every state lottery game, except for the daily numbers, has lost money or never achieved it's goals: Football Lottery, Lucky Daily, Instant Bingo, Luck Stars, Diamond Jubilee. Combined, they made less than one million.
Thirdly, the "winnings" are based purely on luck, chance, and unsteady odds: The State could conceivably lose significant amounts of money for long periods of time. The State lost a minimum of $78,745 in four days; which does not include the overhead money which would be an additional loss on those four days.

State Lottery Rationale: TO REDUCE ILLEGAL GAMBLING BY OFFERING LEGALIZED GAMBLING

The Reality: In fact, there is not one piece of evidence which indicates that illegal gambling has decreased. In reality there is significant evidence that illegal gambling has increased. National Commission on Gambling Policy in America states: "there is a marked increase in illegal gambling in states which have limited legalized gambling, compared to states where there is no legalized gambling".
More significantly here in Delaware the survey has revealed that illegal gambling has not decreased, and in fact, some illegal operation have started as a result of state gambling.

A second source of the information on the increase in illegal gambling comes from a drastic increase in referrals of problem gamblers who attest to the marked increase in illegal gambling opportunities available in New Castle County over the last three years

State Lottery Rationale: TO MERELY ALLOW PRESENT GAMBLERS TO BET LEGALLY AND TO PROVIDE A FUN TYPE ENTERTAINMENT

The Reality: The survey revealed that the advertising promotion is not aimed at the regular gambler but, rather, it is geared to create new gamblers. It has shown some evidence of literally producing new gamblers. Not one aspect of the survey indicated the majority of regular players viewed their participation as fun. Only 22.4% of the persons surveyed admitted to using their entertainment money. Only 17% of the poorest income persons used entertainment monies for state gambling. In none of the Lottery advertising is there a single mention of the real odds against winning.

CONCLUDING STATEMENT:

BASED ON THE INFORMATION AVAILABLE, BY ITS OWN MEASURING ROD, THE STATE LOTTERY HAS FAILED TO REACH ANY OF ITS PROJECTED GOALS AFTER A TRIAL PERIOD OF FIVE YEARS. THERE HAS NEVER BEEN ANY OFFICIAL CONSIDERATION OF THE REAL ECONOMIC AND SOCIAL COST FACTORS RELATED TO STATE SPONSORED GAMBLING. THERE IS AN ESTABLISHED NEED FOR A COMPREHENSIVE RE-EXAMINATION OF THE STATE LOTTERY.

MORAL ARGUMENTS AGAINST STATE-OPERATED LOTTERIES

Testimony of
Dr. Larry Braidfoot
General Counsel and Director of Christian Citizenship Development
Christian Life Commission
Southern Baptist Convention
Nashville, Tennessee

Presented to the
Subcommittee on Intergovernmental Relations
Senate Committee on Governmental Affairs

Washington, D.C.
October 3, 1984
Dirksen Senate Office Building

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EXECUTIVE SUMMARY

Laws of our nation and its states, whether those specifically allowing or specifically prohibiting certain activities, reflect a moral consensus about what values our society seeks to embody in its political institutions. There are many sources of moral influence which shape this consensus. Some sources are religious, some are philosophical. Most pervasive is probably the nonreflective sense of morality which characterizes the common man.

All claims of moral insight must be submitted to the tests of common experience, the experience of our people and of our governments. If the laws and actions of government are not able to convince the American voter that these laws and actions do "provide for the common defense and promote the general welfare," they will not long endure, either as prohibitions or as permissions.

Such is the case with the laws surrounding state-operated lotteries. These laws are not amoral. They embody certain values which must be continually examined by the experiences of those states which have them. The most widely-publicized aspect of their operation is the financial dimension, the generation of revenue for the state. It now seems clear, however, that we have ample experience to identify other characteristics which must be considered.

SHOULD A STATE ESTABLISH A LOTTERY THAT CONSTITUTES A REGRESSIVE SOURCE OF TAXATION?

I would argue that it should not.

Evidence from objective studies has constantly indicated that state-operated lotteries are regressive as forms of raising revenue. The work of Dr. Daniel Suits has successfully demonstrated this on a number of occasions. Even the statements and studies conducted by Scientific Games, Inc., one of the leading suppliers of lottery products, gives some indication that this regressivity is known to be so. Studies such as GAMBLING IN AMERICA and the study by Dr. Mark Abrahamson demonstrate this regressivity beyond any reasonable doubt.

SHOULD A STATE ESTABLISH A LOTTERY THAT WILL KNOWINGLY HAVE A DISPROPORTIONATE APPEAL TO ETHNIC MINORITIES?

I would argue that it should not.

This characteristic of state-operated lotteries has not adequately been researched. Yet the evidence that I have observed indicates to me that there is both a special effect on communities of ethnic minorities, especially blacks and Hispanics, and that this dramatic appeal is recognized by the operators of the lotteries, including such firms as Scientific Games, Inc.

Racial justice has been a hard social and political goal to achieve. The level of progress which has been achieved should not be sacrificed by a revenue-generating approach which knowingly has a disproportionate effect upon black and Hispanic Americans.

SHOULD A STATE ESTABLISH A LOTTERY THAT WILL NOT REDUCE ILLEGAL GAMBLING BUT IN FACT MAY STIMULATE IT?

One of the main arguments advanced for the legalization of gambling, in addition to the generation of revenue, is the claim that legalization will dramatically reduce illegal gambling and thereby cut off ties to organized crime.

Even if corruption and fraud are eliminated in the operation of the legal lottery, a continuation and even refinement of organized crime's involvement in illegal lotteries seems apparent. Illegal lotteries frequently make their payoffs using the winning number of the legal lottery, make better rates of payoff, and do not report winnings to the Internal Revenue Service. Numerous sources from law enforcement circles dispel the contention that legalization will reduce illegal gambling.

SHOULD A STATE ESTABLISH A LOTTERY THAT WILL CONTRIBUTE TO GROWTH IN THE AREA OF PROBLEM GAMBLERS?

Few things would seem more inconsistent than the government which supposedly exists for the benefit of the citizen to be the one promoting a "game" which contributes to the growth in the number of problem gamblers.

Most estimates on the number of compulsive gamblers in our nation put that number at about 8 million. Compulsive gambling has been recognized as a mental disorder by the American Psychiatric Association.

One of the major determinants in the development of a gambling problem is the availability of the gambling activity. The state-operated lottery will put far more gambling outlets within the reach of the average citizen than any other form of legal gamblng.

CONCLUSION.

When the facts about the operation of a state lottery are reviewed, the decision either to allow or to abstain from the establishment of a state lottery seems to represent a moral choice about the role of government. Should the government engage in an activity which is detrimental to and exploitative of special groups of its citizens, in the name of generating revenue? Such an activity seems inherently a contradiction of its responsibility to "promote the general welfare" of its citizens. Thus a choice about the establishment of a state-operated lottery amounts to a choice about the kind of government we will expect and allow.

MORAL ARGUMENTS AGAINST STATE-OPERATED LOTTERIES

I congratulate the Subcommittee on Intergovernmenal Relations of the Senate Committee on Governmental Affairs for conducting these oversight hearings on state-operated lotteries. These hearings deal with one of the more pressing issues which needs the public insight and dialogue which such hearings can help stimulate.

I have been specifically asked by Senator Durenberger to present testimony as an expert witness on the subject of the moral arguments against state-operated lotteries. I am General Counsel and Director of Christian Citizenship Development for the Christian Life Commission of the Southern Baptist Convention. In this capacity I have worked extensively over the last two years on the subject of legalized gambling, both as a researcher and as a resource person for groups and individuals who have been engaged in campaigns in states considering the establishment of various forms of gambling, including legalized state lotteries. I have established working contact with organizations in a number of states ranging from California to New York. Our office has sponsored several consultations and conferences dealing with the subject of legalized gambling, with consideration of state-operated lotteries being foremost in our considerations. We have sought to obtain the most current information from a wide variety of sources.

Let me address a preliminary matter so that my testimony will be seen most clearly from the perspective from which it is tendered. I believe very strongly that the consideration of moral concerns is a needed part of the deliberation about a subject such as state-operated lotteries. Please understand that while I live and work as a Christian and an employee of a denominational organization, I do not consider it appropriate to urge as public policy some position which is substantiated only by a specifically Christian position. The moral questions associated with deliberations about state-operated lotteries must be much broader than my religious tradition or even all religious traditions.

Our political heritage is shaped by the responsibility of our government to "provide for the common defense and to promote the general welfare." Both concepts are based upon moral perceptions of public policy. But the First Amendment, with its guarantee not only of religious freedom but also of the right to decide to not be religious, gives instruction about the manner in which moral questions must be considered in making decisions about the public welfare.

Public policy embodies a decision, a consensus, about the direction of our government's actions. Such choices are shaped by value judgments of Protestants, Catholics, Jews, Buddhists, Moslems, other religious traditions, humanists, atheists, and individuals not fitting into any of the above categories. Only as an issue can be discussed and translated into terms and concepts not dependent specifically upon the teachings of one's particular religious persuasion is the individual or group justified in urging that the value be followed by the majority in shaping public policy. This process I call public morality.

With this preliminary clarification, I want now to address what I consider to be clear and valid reasons for public morality, for public policy, for opposing state-operated lotteries.

SHOULD A STATE ESTABLISH A LOTTERY THAT CONSTITUTES A REGRESSIVE SOURCE OF TAXATION?

The entire debate about state-operated lotteries is a result of the pressure for more revenues for the states. Within this present context, lotteries are purely and simply viewed as means of raising revenues from the citizens of the state who are either inclined, or can be enticed, into playing the lotteries. Since the result is to clearly function as a tax, the lotteries must be judged by the manner in which they function, which includes a consideration of those from whom the state raises revenue.

The leading expert on lottery regressivity is Dr. Daniel Suits, who is scheduled to also give testimony at these hearings. With some awareness of his research, I will avoid duplicating those published works of his with which I am familiar.

It might be instructive, however, to note some relevant information which can be derived from other sources. I would call to the attention of this Subcommittee comments and studies conducted by Scientific Games, Inc., a subsidiary of Bally, Inc. Scientific Games is a leading supplier of products for the operation of state-operated lotteries.

Scientific Games, Inc., is such a strong advocate of state-operated lotteries that it serves as a catalyst in states considering the adoption of state-operated lotteries. Published reports have indicated that Scientific Games has spent in excess of $1,000,000 in California in getting the lottery issue on the November ballot,[1] approximately $200,000 in Arizona,[2] $150,000 in Oregon,[3] perhaps another $100,000 in Colorado and the District of Columbia,[4] and unidentified amounts in states such as West Virginia, Louisiana, and Mississippi.

These funds were expended in a variety of ways: for petition circulators, for lawyers fees, for promotion campaigns, and other activities connected with the development of a campaign for legalization of a state lottery.

Clearly, Scientific Games is fully involved with the marketing and develoment of state-operated lotteries. Thus it is instructive to note some indications from them as to who some of the lottery players are.

Daniel Bower is president and cofounder of Scientific Games, Inc. In 1982 he addressed the Fourth Annual Gaming Conference and International Gaming Congress at the Dunes Hotel in Las Vegas, Nevada.[5] On that occasion he identified the principal players of the three different forms of lottery games being played: the weekly draw game, the instant game, and the player selection game. These different games were introduced chronologically in that general sequence and each form of the lottery represented an approximate tripling of the activity being realized by the predecessor.

The weekly draw game attracts players "most likely to be white male, and on the middle to lower side of the occupational scale. A majority of the players are age 55 or older."

The dollar instant game is most likely to be played by those who are white and male, but somewhat younger than those playing the weekly draw game.

The big attraction, however, is the player selection game, which in some states represents almost 90% of the net sales of the lottery. According to Bower, the player "is most likely to be a nonwhite male employed as a laborer or service worker. Most players have less than an eighth grade education and few have more than a high school education."

In expounding on the merits of the development of the "video lottery," considered to be the "state of the art for the future," Bower noted that it will attract a new group of consumers not yet attracted by existing forms of the lottery. This group is "younger, better educated, more affluent and higher in occupational status." Surveys he quoted in this address indicate an awareness that white-collar, upper-income individuals do not presently play the lottery.

Thus it seems clear that the proponents of the lottery are aware that their product attracts individuals on the lower income strata of society, on the low end of the educational and professional ladder.

PUBLIC GAMING MAGAZINE has carried in recent months a series of articles describing a study conducted by Dr. John Koza, chairman and chief executive officer of Scientific Games. Dr. Koza received a Ph. D. in computer science from the University of Michigan. The study conducted was of participation in the lottery in New Jersey.

The most instructive part of the study was reported in Part IV of the series.[6] In that article, Koza identified the leading neighborhoods in terms of the participation in the lottery. He identified the leading four kinds of neighborhoods in playing the different games sponsored by the New Jersey lottery. It should be noted that the New Jersey lottery does not have a weekly draw game. This has been abandoned as among the least profitable. The New Jersey lottery has the instant game and three forms of the player selection game: Pick 3, Pick 4, and Pick 6.

Since Koza identified the leading four neighborhoods for each form of the lottery, a total of 16 possibilities existed in determining the leaders in playing the lottery. Of the 16 possibilities, only 2 neighborhoods showed up which represent either a middle-class or upper-class level of income, both with the instant game. The other two neighborhoods which showed up among the leaders in playing the instant game were identified as follows: (1) Older Population, Lower-Middle Income, Eastern Europeans, Northeastern U.S.; and (2) Older Population, Lower-Middle Income, Low Value, Very Old Housing.

The kind of neighborhood which was the leader in both Pick 3 and Pick 4 was identified as Black Neighborhood, Older Population, Old Rental Housing. This neighborhood was the fourth leading neighborhood in playing Pick 6. The frequency with which this kind of neighborhood played Pick 3 was 2.46 times greater than average, 2.29 greater than average for Pick 4, and 1.23 times greater than average for the Pick 6 game.

A second leading neighborhood in playing the player selection games sponsored by the lottery is identified as Older Population, Lower-Middle Income, Small Towns. This neighborhood was third in Pick 3, fourth in Pick 4, and second in Pick 6 playing.

The neighborhood which was identified as Older Population, Lower-Middle Income, Eastern Europeans, Northeastern U.S., which was the leader in the instant game, was second in both Pick 3 and Pick 4 and third in Pick 6.

The other neighborhood to note is identified as Hispanic Neighborhood, Poor Families, Very Old Housing. This neighborhood was identified as being fourth in Pick 3, third in Pick 4, and second in Pick 6.

Thus of the 16 possibilities, only 2 of the neighborhoods represented income levels classified as middle-class or above.[7]

The player selection games, which represent the main source of revenue for state lotteries, have been identified by studies other than those mentioned as having a disproportionate drawing from lower socio-economic groups. One of the earliest studies to detect this heavy appeal was Dr. Mark Abrahamson, Professor of Sociology, University of Connecticut, in a study funded by the Connecticut State Commission on Special Revenues. The study was conducted in 1977.

I will note simply the recommendation of that study: "Connecticut Daily Numbers primarily attracts poor, long-term unemployed and less educated participation. It generates State revenue in a regressive manner and should be discontinued."

I do not know of the religious persuasion, if any, of Dr. Abrahamson. Yet his statement can be representative of my sentiments in expressing a value basis for public policy. The state should not establish, conduct, and profit from an activity when it is clear that the activity is regressive and appeals to individuals who are desperate and need anything but encouragement to squander their income.

The public policy question can be posed simply: Should a state sponsor a lottery which is calculated to have a disproportionate drawing effect upon individuals from the lower socio-economic classes of our society, thereby extracting a disproportionate share of state revenue from them? **NO!**

SHOULD A STATE ESTABLISH A LOTTERY THAT WILL KNOWINGLY HAVE A DISPROPORTIONATE APPEAL TO ETHNIC MINORITIES?

One characteristic of state lotteries has not adequately been noted by the literature which has analyzed their operation. Objective studies which have focused on the regressivity of the lotteries have dealt with ethnic identification less precisely than would have been desired. However, it now seems clear that there is a clear awareness that state lotteries have a dramatic appeal to ethnic minorities which transcends even lottery regressivity.

At the time of the study done for the Presidential Commission on the Review of the National Policy Toward Gambling, the daily numbers or player selection games had not yet become the staple of the lottery industry. While some states had introduced them, other states had not yet done so and information was lacking about their participation. The study indicated that 25% of the white population had bought a lottery ticket in 1974, whereas only 19% of nonwhites had done so. So in 1974, the nonwhite population was less attracted to the lottery than were whites.[8]

At this point it should be noted that the daily numnbers games had a long history, going back for decades, in ghettos of the black and Hispanic communities. The game had a profound sociological impact upon the community.[9]

Upon the introduction of the daily numbers game to the state lotteries, the state lottery became a competitor of the illegal games. I know of no report which indicates that the end result was to produce a reduction in illegal gambling. In the appropriate section of my testimony, I will deal with that issue.

However, there is little question that the introduction of a legal numbers game had a profound result on black and Hispanic participation in the state lottery. Abrahamson's study reports the following conclusion about the Connecticut daily numbers game: "The Connecticut daily lottery attracts predominantly black, low income, daily bettors who continue to play the illegal numbers game at the same time...."[10] This was true in spite of original restrictions about the sale of these tickets in lower socio-economic neighborhoods, which restrictions subsequently were eliminated.

This contention is further demonstrated by the quote from Bower mentioned earlier: "The player selection games in the U.S. primarily attract the low-income, minority market. The player is most likely to be a nonwhite male employed as a laborer or service worker."[11]

Koza's study further demonstrates the dramatic appeal that state-operated lotteries have to ethinic minorities. In Part I of his study, he indicated that blacks and Hispanics played the Pick 4 game with 1.99 the frequency of the average population, or almost double. The Pick 3 game attracted blacks and Hispanics with 1.97 times the frequency of the average population, or almost double.[12]

One Michigan legislator, Representative Joe Young, Jr. (D-Detroit) began raising these kinds of questions in 1983. Lottery officials had apparently very little data on who played the lottery. According to officials of Market Opinion Research of Detroit, the proportion of blacks who play is higher than whites, and among those who play, blacks play with greater frequency. "This sort of data is not lost on Young, who is black, and who has concerns that Michigan's lottery, subtly or otherwise, preys on inner-city residents and is, in effect, a tax on poor people and black people." This conclusion seemed to be reinforced by statistics indicating that 47% of the Michigan on-line lottery outlets were in the Detroit city limits.[13]

Whether impacting lower socio-economic or ethnic minorities more dramatically, or realizing the interrelationship of poverty and ethinic identification in our society today, there is considerable evidence that the concentration of lottery outlets in lower socio-economic neighborhoods is a practice somewhat widely followed.[14]

Further inquiry is needed into this apparently conscious direction and marketing of the player selection games to ethnic minorities. The indication is that state lotteries knowingly derive a significant percent of their income from games directly targeted to blacks and Hispanics. As such, I believe strongly that this is a form of ethnic exploitation that is at least implicitly racist and should not be tolerated in a civilized nation.

I might not have been sensitive to this dimension of the issue of state-operated lotteries except for a phone conversation which I had with the director of one state lottery, whom I am not at liberty to identify. As a native of Texas and a current resident of Tennessee, I was relatively unfamiliar with a lottery. This individual was explaining to me the daily numbers game. When I experienced difficulty in understanding what he was relating to me, he resorted to the use of a racial slur in order to clarify the nature of the game: "Fellow, the numbers game is what is called 'Nigger pool.'" I learned from that comment more than the simple mechanics of the game.

Should a nation which has struggled to attain the measure of racial justice and equality which we have thus far attained, and which must struggle to avoid sliding backward on this enormously important issue, engage in activities which knowingly target a group to generate a disproportionate amount of income from an activity which produces no product and is attended by many questionable social consequences? **NO!**

SHOULD A STATE ESTABLISH A LOTTERY THAT WILL NOT REDUCE ILLEGAL GAMBLING BUT IN FACT MAY STIMULATE IT?

One of the main arguments advanced for the legalization of state lotteries is that legalization will cut into illegal gambling and thereby cut off a major source of funds for organized crime. I have concluded that this contention is not supported by evidence.

It is understandable that a society would be concerned about organized crime. In 1980, FORBES magazine ran a series of articles on organized crime that estimated the income of organized crime at $150 billion per year.[15] Of that amount, approximately $22 billion was projected to result from illegal gambling activity. Income from organized crime derived from illegal gambling serves as seed money for drug traffic.

In January of this year, I conducted an interview with Mr. Sean McWeeney of the FBI. He is chief of the organized crime section of the criminal investigative division. Mr. McWeeney declined to speculate on the amount of income organized crime derives from illegal gambling, but he did express disagreement with the idea that legalization of a form of gambling will reduce the amount of illegal gambling and thereby reduce organized crime's association with gambling.

"The major problem is credit," McWeeney said. "Legal gambling creates new gamblers who switch over to illegal gambling when their money is exhausted. They switch to the illegal games because they can get credit." Although acknowledging that he did not possess statistics, he did estimate that organized crime derives more income from its involvement with illegal lotteries than from its more publicized involvement with casinos.

"Small individual bets by themselves don't seem significant. But millions of these small bets provide an enormous source of income which can then be used in other organized crime activities like the narcotics trade."

"Those who go overboard in their betting are likely to wind up getting involved with loan sharks. Only then, when they are unable to pay the exorbitant fees, do they run into the violent aspect of organized crime," said McWeeney.

Legal lotteries are unable to compete effectively with illegal lotteries for three reasons. First, they have higher overhead because a part of the total wagered goes to the state. Second, they make lower payouts than the illegal lotteries. Third, illegal lotteries do not report winnings to the Internal Revenue Service. This applies to the weekly drawing, instant games, and the daily numbers game. It remains to be seen what effect the Lotto games will have on this picture.

The conclusion from law enforcement sources and studies seems to have disputed for a number of years the idea that legalization of a form of gambling will have the effect of reducing illegal gambling.

In 1974, the Fund for the City of New York and the Twentieth Century Fund sponsored a Task Force On Legalized Gambling.[16] Two relevant conclusions were stated by that Task Force: "Legalized gambling probably cannot simultaneously serve the objectives of both maximum gains in revenues and improved law enforcement. A policy designed solely to maximize public revenue from gambling may conflict with other policies in the public interest. The law enforcement benefits of legalization are more important than the revenue potential. But even though legalization of certain specific games may make a noticeable dent in the volume of illegal gambling, legalization of most forms of gambling--unless accompanied by greatly increased law enforcement efforts--will not eliminate illegal gambling operations."

One of the forms of legalized gambling which the Task Force thought promising was the legal numbers game. This optimism seems unjustified, however. Captain Dennis Deneen, vice control commander for the Chicago police is quoted as saying: "Our biggest problem right now is the illegal booking of the state lottery."[17]

This is a situation which has been noted also in Washington, D.C. "Washington's illegal numbers racket is booming, with profits as large as they've ever been, despite the introduction of the District's first legal gambling last August," according to D.C. police officials. "...Matching the illegal game against the legal lottery 'is like two guys in a boxing ring, one with an arm tied behind his back,'" said Howard Klein, associate publisher of GAMING BUSINESS magazine in New York and an expert on legal and illegal lotteries. "We expect the illegal numbers game to continue to flourish in spite of any legal games," Inspector Kris Coligan, chief of the D.C. police morals division, said. "Obviously, a legalized lottery is not going to stop the illegal numbers game that we have now," said police chief Maurice Turner, citing a similar pattern in other cities where legalized gambling has been introduced.[18]

The matter was made worse in Washington, D.C. by the use of preprinted slips to be used in connection with the legal numbers game. But these slips can be used by the operators of the illegal games, making arrest and prosecution for illegal gambling almost impossible. "With the use of official government-sanctioned bet slips, numbers operators would be able to tell police that their slips were meant for use in the legal game even if they were instead planned for use in the illegal game."[19]

In 1978, hearings in Florida by the Senate Permanent Subcommittee on Investigations stated the following conclusion: "Thus, while the level of illegal lottery activity cannot be labeled 'wide open' it is definitely widespread." The report indicated that one operation alone grossed in excess of $10 million. Lottery operators were discovered to have clear links with organized crime families both in Florida and in the New York-New Jersey areas.[20]

The April 10, 1978 issue of CRIME CONTROL DIGEST reports on a study financed by the National Institute of Law Enforcement and Criminal Justice, the research arm of the LEAA. "Police efforts against gambling could not be reduced, even with legalization, because there is no evidence that legalized wagering decreases illegal gambling...."[21] "Major systemwide gambling-related corruption scandals in the recent past have been more likely to occur in cities where organized crime was thought to be directly involved in illegal gambling."

More recently, Senator Strom Thurmond's Judiciary Committee took testimony from Lt. Colonel Justin J. Dintino, commander of the Intelligence Division of the New Jersey State Police. Mr.

Dintino is presently a member of the Presidential Commission on Organized Crime. The following excerpt is instructive:

Sen. Thurmond: "In other words, you're saying that when you legalize gambling it has increased other gambling, is that right?"

Dintino: "Yes, in other words, when you introduce gambling to an area where they never had gambling before, you now develop a whole new group of individuals who start to gamble. Now, as a result of that, they may initially start out with legal gambling, but some of those people will turn to the illegal gambling because maybe it offers them higher payments and there are no tax payments that have to be made."[22]

Recently our office sponsored a Conference on Legalized Gambling in Washington, D.C. We had Mr. Austin McGuigan, Chief State's Attorney, State of Connecticut, as one of our resource speakers. He has successfully prosecuted the operators of the lottery on two separate occasions, once for fixing a drawing for a car and once for a drawing for $5,000. I recommend highly that this Subcommittee secure testimony from individuals such as Mr. McGuigan. He suggested that, upon legalization of gambling, including the lottery, rather than pretending to regulate the activity, the state post a sign which says something like the following: "The state does not guarantee the honesty or integrity of this game."

Mr. McGuigan's comments seem appropriate. A sufficient number of instances of corruption have occurred to indicate that state-operated lotteries indeed are not free of corruption. Ample evidence exists to indicate the proliferation of illegal gambling under the umbrella created by a state-operated lottery.

Establishment of lotteries does not carry with it sufficient funding for the law enforcement necessary to guarantee the honesty of the game and to control the growth of ilegal gambling which takes place within the state environment.

One illustration of this may be noted by referring to a report prepared by Gregory H. Smith, Attorney General of the State of New Hampshire. The report regarding Bally Manufacturing Corporation was prepared in response to the prospect of the state of New Hampshire entering a contract with Scientific Games, Inc., a wholly-owned subsidiary of Bally, in connection with the New Hampshire lottery. Mr. Smith recommended against doing business with Scientific Games because of his review of Bally's record. His report was eventually ignored by the Commissioners of the Sweepstakes Commission, who contracted with Scientific Games over the opposition of the Attorney General of the state.[23] This report is included in the appendix to my testimony.

It has long been recognized that the two goals, maximization of revenue and crime control, are not compatible. There is no doubt that the state-operated lotteries come down strongly on the side of maximization of revenues and that crime control is something which becomes neglected.

Should a state establish a lottery when the inevitable problem of controlling illegal gambling is rendered even more difficult? **NO!**

SHOULD A STATE ESTABLISH A LOTTERY THAT WILL CONTRIBUTE TO GROWTH IN THE AREA OF PROBLEM GAMBLERS?

In 1981, the American Psychiatric Association classified compulsive gambling as a mental disorder. Thus, compulsive gambling is recognized as a disease, an illness, in the same vein as drug addiction or alcoholism. Estimates vary as to the number of compulsive gamblers in the nation, just as estimates vary about the number of drug addicts in the nation. Most estimates suggest the number is about 8 million. This means that there are about 8 million persons in our nation who are unable to control their urge to gamble.

The introduction of a state lottery places the state in a paradoxical role in relation to these individuals. If we are to take seriously the mandate to "promote the general welfare," our nation and our states must provide medical attention for these individuals just as we seek to do for the drug addict. Yet the introduction of a state-operated lottery would put the state in the position of being the huckster that promotes the very activity which is detrimental to the health of the individual. The constant promotions on television, the daily announcement of the winners, the conduct of an activity which is glorified by newspapers and television reporting---all of this carries with it the imprimatur of the state, legitimatizing the activity which for some will grow beyond their ability to control.

A few samples of information may dramatize slightly the seriousness of the problem. Many of us noted with sadness the plight of the 19-year old boy who wagered $6,000 on a lottery drawing and attempted suicide after losing rather than have a confrontation with his father over the squandering of his savings.[24] Although this example is extreme, other kinds of personal tragedy are almost as severe, although not as widely publicized.

Perhaps the most dramatic growth in compulsive gambling has been among women. Earlier studies had identified the problem as essentially a man's problem. But Arnie Wexler, vice president of the National Council on Compulsive Gambling, has stated that about 25% of the compulsive gamblers are now women.[25]

In 1977, New York City police chaplain Msgr. Joseph Dunne estimated that perhaps 1,500 of the 25,000 New York City policemen might have a gambling problem that would require professional counseling to help overcome.[26]

Gerald T. Fulcher of the Delaware Council on Gambling Problems states that 86% of compulsive gamblers have committed felony crimes while pursuing their addiction. A study seriously needed is one which would seek to identify the amount of money lost through the commission of these crimes by compulsive gamblers. The amount would stagger the imagination and would serve as an antidote for myopic projections about the good that legalized gambling does for a state's economy. Fulcher cites estimates from the American insurance industry which indicate that about 40% of "white collar crime" is committed by compulsive gamblers. In addition, he cites studies that almost 20% of wife abuse cases involve domestic tension resulting from compulsive gambling.[27]

Mr Thomas J. O'Brien, director of the New Jersey Division of Gaming Enforcement asserts, "We're creating a whole generation of gamblers in this country. The person with access to funds will be increasingly susceptible to committing crimes such as embezzlement."[28]

Perhaps the biggest timebomb is the problem of compulsive gambling among teenagers. It is not just those who are anti-gambling in their orientation who see this problem. A recent address at a thoroughbred racing meeting contained the following warning: "Someone on the lottery commission also wants to put lottery tickets in slot machines, where you can go right into any place, press a button, put your money in, and get your ticket. It is also going to be available to high school students. Their lunch money is going to go in there like it has gone into all of those video games."[29]

Perhaps one way to deal substantively with the issue of compulsive gambling is to simply note several studies and articles dealing with compulsive gambling in New Jersey.

A 1979 study was conducted by Mr. Rickey Greene of the New Jersey Department of Health, Alcohol, Narcotic and Drug Abuse Unit. I simply note some of the highlights of his study:

*Individuals who are probable compulsive gamblers are five times as likely to have been married three or more times than the population in general.

*The average compulsive gambler affects four to ten other individuals.

*One study indicates that there are as many women compulsive gamblers as there are men.

*Studies indicate that in excess of 90% of compulsive gamblers began gambling prior to age 21.

*Lottery tickets are highly accessible to children since they are sold in locations which are readily available, such as candy stores, supermarkets, and news stands.[30]

In 1981, committee hearings were held on the subject of compulsive gambling by the Assembly Institutions, Health and Welfare Committee of the New Jersey Legislature. One of those testifying was Mr. Robert Klein, a specialist counselor at the Atlantic City High School, working with problems of addiction such as compulsive gambling. He had conducted a survey among Atlantic City High School students regarding their gambling behavior. He noted the following results:

*72% of the students gambled in the casinos in New Jersey.
*69% started gambling at the age of 16.
*6% started gambling at the ages of 10-12.
*9% started gambling before the age of 10.
*6% shoplift to get money to gamble.
*3% sold drugs to get money to gamble.[31]

If 72% of the students have gambled at one time or another, or with some frequency, in casinos, with all of the attempts at regulation and control, how can we seriously contend that lottery sales can be conducted so as to assure that children do not take advantage of the greater availability of lottery tickets? We can't.

One last statement from New Jersey seems appropriate. Mr. Walter Read, Chairman of the New Jersey Casino Control Commission made the following statements:

> "Fifteen years ago there were no women and no teenagers in Gamblers Anonymous. Today there are 20 percent teenagers and 20 percent women."
>
> "A common profile of a compulsive gambler today would be someone under 30 years of age and $85,000 in debt."[32]

There is no doubt that the problem of compulsive and problem gambling is increasing dramatically. Studies do not yet exist to be able to make the charge that more compulsive gambling results from lotteries than from other forms of gambling. But a brief quote from the Presidential Commission Report is worth remembering: "The Commission's research has shown that the availability of legal gambling creates new gamblers. A government that wishes merely to legitimatize existing illegal wagering must recognize the clear danger that legalization may lead to unexpected and ungovernable increases in the size of the gambling clientele."[33]

Other relevant quotes are also noteworthy: "By directly engaging in the promotion of a gambling business, a State takes on the responsibilty of insuring that the enterprise is conducted in the best interests of the people. Indeed, the State as lottery entrepreneur has a special fiduciary responsibility to its citizens; since the presumption exists that the State is acting on behalf of the people, it has an obligation to inform them of its intentions to profit from the participation. Accordingly, the State must take care to inform the public fully as to the odds and character of the games being offered, and to avoid any misleading practices in its advertisements and promotional activities.... The states should conscientiously disseminate information about the probabilities involved in winning a prize, and should scrupulously limit their lottery advertisements to those informing the public of the existence and nature of the games offered, rather than actively encouraging them to participate."[34]

The Report continues: "In this context, the States have the responsibility to police themselves. Should they fail in this responsibility, Congress should consider giving the Federal Trade Commission the explicit authority to set and enforce compulsory guidelines."[35]

I call to the attention of this distinguished Subcommittee simply one recent incident to demonstrate the problem with which the quote from the Report was concerned. At the press conference connected with the recent jackpot in Illinois, which produced a $40 million jackpot, one of those attending was Governor Jim Thompson who had publicly purchased tickets for the jackpot. Governor Thompson is quoted as saying: "I think it's terrific. There are no losers in the Illinois Lottery...."[36] How far is this quote from being exactly the kind of state action about which the Presidential Commission Report was warning?

It is clear that no other form of legalized gambling will bring the activity more visibly into the community. Those who choose to utilize the services of a casino or a racetrack have to travel to that facility to engage in gambling. This is not so with the lottery. Because of its greater availability, it has much greater potential for doing exactly what the Presidential Commission warned against: encouraging people to gamble rather than simply allowing those to gamble who might choose to do so. The lottery goes into the community with its outlets. It goes on television and advertises under the banner of the state's name. One has to look long and hard for information about how poor the chances of winning are.

Should a state establish a lottery which will increase the number of compulsive and problem gamblers in our society? **NO!**

CONCLUSION

Recently, the agency for which I work became concerned about the growth of gambling legislation at the national level. We have expressed opposition especially to S. 1876 and to HR 5097, bills which would eliminate federal restrictions on interstate advertising of lotteries and casinos.

Several quotes were considered especially relevant as we expressed our opposition, and that of many individuals and organizations with whom we work, regarding that legislation. A quote of Harry Reid, then chairman of the Nevada Gaming Control Commission and now U.S. Representative and sponsor of HR 5097, seems relevant: "I'd be a fool to say gambling has not been good for the state,...but any state trying to follow Nevada's lead will find that social costs far outweigh any economic benefit."[37]

Likewise we thought that recent comments from two individuals connected with the Presidential Commission were relevant.

Mr. James Ritchie, formerly Executive Director of the Commission, is quoted at the Fourth Annual Gaming Conference and International Gaming Congress in 1982 as follows: "There is no question that gaming is regressive in terms of raising revenue. It is inefficient compared with a broad-based tax." "The theory that we developed at the U.S. Commission on Gambling is that, from the standpoint of economics, legal gaming not only feeds on itself and is its own economic stimulus, but it also stimulates illegal gaming."[38]

Mr. Charles H. Morin, chairman of the Commission, in 1983, told the Fifth Annual Gaming Conference:

> "The conclusion was that where gambling is legal, it did increase the incidence of illegal gaming."
>
> "Does legalized gaming offer a major source of government funding? We concluded that it is not significant in relation to the budget in almost any state. I think we would conclude the same today."
>
> "Is taxation of gaming particularly regressive? We found that it is, primarily because the survey showed

> that most gaming was done by the lower and lower-middle classes and that the taxation of those proceeds, if any, was regressive in nature."
>
> "Would legalization of gaming lead to a substantial increase in the number of compulsive gamblers? According to the evidence presented in the survey, the answer was a resounding yes."[39]

The foregoing demonstrates the factual information upon which I have based my arguments. Please note that I have not made reference to religious teachings and to very few authors who might be presumed to be working with a religious bias in examining the issue. It is my belief that when the facts are clearly viewed, the kind of moral assessment upon which public policy should be based weighs heavily against the state-operated lotteries, and that reliance upon them constitutes an abdication of the legitimate role of the state in "promoting the general welfare."

Thank you for your willingness to conduct these hearings and for the invitation afforded me to give testimony.

FOOTNOTES

[1] Sacramento Bee, Aug. 3 '84.

[2] Bill Curry, "State Lotteries: Roses and Thorns," State Legislatures, Mar. '84, p. 16.

[3] Oregon Statesman Journal, July 24 '84.

[4] Curry, p. 16.

[5] Daniel W. Bower, "Video Lottery Devices: A New Generation of Players," FOURTH ANNUAL GAMING CONFERENCE AND INTERNATIONAL GAMING CONGRESS, 1982 (Philadelphia: Laventhol & Horwath, 1982), pp. 23-24.

[6] Dr. John R. Koza, "Who is Playing What: Part 4 of a Series," Public Gaming, June '84, pp. 50ff.

[7] Ibid, p. 64.

[8] GAMBLING IN AMERICA. Final Report of the Commission on the Review of the National Policy Toward Gambling (Washington: 1976), p. 156.

[9] S. C. Drake and H. Cayton, "Policy: Poor Man's Roulette," in GAMBLING, by R. D. Herman (New York: Harper and Row, 1967).

[10] Mark Abrahamson, Director, and John N. Wright, Assistant Director, Gambling in Connecticut, A Research Report Funded by the Connecticut State Commission on Special Revenues, Storrs, Connecticut, Nov. '77, p. 33.

[11] Bower, pp. 23-24.

[12] Dr. John R. Koza, "Who is Playing What: Part 1 of a Series," Public Gaming, Mar. '84, p. 14.

[13] Detroit Free Press, June 23 '83.

[14] G. Robert Blakey, "State Conducted Lotteries: History, Problems and Promises," The Journal of Social Issues, Vol. 35 #3 (1979), pp. 63-64; The Christian Science Monitor, May 12 '82, p. 10; Dudley E. Sarfaty, "A Need to Guard Against a Gambling Dependent State," Engage/Social Action, Vol. 11 #8 (Sept. '83), p. 14; The Impact of State Sponsored Gambling on the Community: A six-month study conducted in New Castle County, Delaware, by the Delaware Council on Compulsive Gambling.

[15] James Cook, "The Invisible Enterprise," Forbes (Sept. 29 '80), pp. 60-71.

[16] EASY MONEY. Report of the Task Force on Legalized Gambling sponsored by the Fund for the City of New York and the Twentieth Century Fund (Millwood, New York: Kraus Reprint Co., 1975), p. 2.

[17] "Gambling Rage Out of Control?" U. S. News and World Report, May 30 '83, p. 28.

[18] Washington Post, Apr. 26 '83, pp. A1, A8.

[19] Washington Post, May 29 '83, pp. B1, B9.

[20] ORGANIZED CRIMINAL ACTIVITIES--SOUTH FLORIDA AND US PENITENTIARY. Hearings before the Senate Permanent Subcommittee on Investigations, Part 3, 95th Congress, 2nd Session, Oct. 24-25, 1978, pp. 750 and 818.

[21] Crime Control Digest, Apr. 10 '78, pp. 3-5.

[22] Organized Crime Digest, Feb. '83, p. 3.

[23] Report from Gregory H. Smith, Attorney General, State of New Hampshire, to members of the Sweepstake Commission.

[24] Progress, Nov. '83.

[25] Arkansas Democrat, Dec. 26 '83.

[26] Crime Control Digest, July 7 '77, pp. 5-6.

[27] Gerald T. Fulcher, "In Response: Legalized Gambling, Who Are Its Victims?" State Legislatures, Oct. '81, pp. 20-21.

[28] The Wall Street Journal, Nov. 23 '83.

[29] The Blood-Horse, May 12 '84, p. 3443.

[30] Rickey Green, A Preliminary Study on Compulsive Gambling in New Jersey, July '79. [Greene is an employee of the New Jersey Department of Health, the Alcohol, Narcotics and Drug Abuse Unit.]

[31] Public Hearings on Compulsive Gambling, before the Assembly Institutions, Health and Welfare Committee, Apr. 8 '81, p. 3A.

[32] "Regulation 1984," Public Gaming, Feb. '84, p. 18.

[33] GAMBLING IN AMERICA, p. 2.

[34] Ibid, p. 159.

[35] Ibid.

[36] The Tennessean, Sept. 4 '84, p. 1.

[37] "Gambling: Government's Bad Bet," Kiwanis Magazine, Feb. '82, p. 33.

[38] James E. Ritchie, "Gaming Today and Tomorrow--The United States," FOURTH ANNUAL GAMING CONFERENCE AND INTERNATIONAL GAMING CONGRESS, 1982, pp. 52-54.

[39] Charles H. Morin, "The Presidential Commission on the Review of the National Policy Toward Gambling Revisited," FIFTH ANNUAL GAMING CONFERENCE, 1983 (Philadelphia: Laventhol & Horwath, 1983), pp. 54-55.

ADDENDUM ATTACHED

THE STATE OF NEW HAMPSHIRE

ATTORNEY GENERAL
GREGORY H. SMITH

DEPUTY ATTORNEY GENERAL
DEBORAH J. COOPER

ATTORNEYS
PAUL BARBADORO
LORETTA S. PLATT
DANIEL J. MULLEN
JAMES D. CAHILL, III
RONALD F. RODGERS
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O. DANA BISBEE
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THE ATTORNEY GENERAL
STATE HOUSE ANNEX
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ASSISTANT ATTORNEYS GENERAL
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DONALD J. PERRAULT
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PETER W. MOSSEAU
BETSY S. WESTGATE
MARTHA V. GORDON
PETER C. SCOTT
EDWARD L. CROSS, JR
MICHAEL A. PIGNATELLI
BRIAN T. TUCKER

September 1, 1982

George Langley, Chairman
Webster Bridges, Commissioner
John Marro, Commissioner
Sweepstakes Commission
Fort Eddy Road
Concord, New Hampshire 03301

Gentlemen:

Bally Manufacturing Corporation, a Delaware corporation, has expressed an interest in contracting with the State of New Hampshire to supply lottery tickets to the New Hampshire Sweepstakes Commission. For the reasons stated herein, I am strongly opposed to any contractual relationship between the State of New Hampshire and Bally Manufacturing Corporation at the present time.

Statement of Reasons

In 1980, the State of New Jersey Department of Law and Public Safety, Division of Gaming Enforcement (hereinafter "DGE") conducted an extensive investigation into the activities of Bally Manufacturing Corporation, its subsidiaries, and its principals, since its inception. On August 4, 1980 DGE issued a Report to the Casino Control Commission with Regard to the Application of Bally's Park Place, Inc., a New Jersey Corporation, for a Casino License and the Application of Bally Manufacturing Corporation, a Delaware Corporation, for a Casino Service Industry License (hereinafter "DGE Report"). On March 16, 1981, the Casino Control Commission issued an Opinion, granting a casino license to Bally's Park Place, Inc. and a casino service industry license to Bally Manufacturing Corporation, subject to several substantive conditions and despite DGE's objection that

Legal Counsel (603)271-[illegible]
Charitable Trust (603)271-[illegible]
Antitrust Section (603)271-[illegible]
[illegible]271-[illegible]

Consumer Protection (603)
Criminal Justice (603)
Eminent Domain (603)
Environmental Protection (603)
Unemployment Compensation (603)

both companies were generally unfit for licensure. See Opinion, pp. 80-83. In declining to recommend that the State of New Hampshire engage in contractual relations with Bally Manufacturing Corporation, I rely heavily on the factual bases of the DGE Report and the Casino Control Commission Opinion. However, I take issue with the ultimate conclusion reached by the State of New Jersey as to Bally Manufacturing Corporation's fitness to do business.[1]

As the Casino Control Commission stated in its Opinion, "[a] corporation mirrors the attributes of its principal officials and must bear responsibility in a broad sense for their failings." Opinion, p. 75. The Commission further found that since the purchase of Lion Manufacturing, Bally's predecessor, in 1963 by Mr. William O'Donnell and others, through K.O.S. Enterprises, O'Donnell, who until 1979 was President, Chairman of the Board of Directors, and Chief Executive Officer of Bally,[2] has controlled Bally Manufacturing Corporation; the Commission stated: "[t]o recount Mr. O'Connell's activities is to recount the relevant history of Bally." Opinion, p. 11.

The Commission found that Mr. O'Donnell's "activities," as Bally's "undisputed leader," included but were not limited to the following:

(1) The 1963 purchase of Lion Manufacturing Company, Bally's predecessor, was accomplished through K.O.S. Enterprises, which included Abe Green, a principal of Runyon Sales, Lion's largest distributor in New York, New Jersey and Connecticut, Sam Klein, and Irving Kaye, who became a vice president of Bally. Both Klein and Green had a long-standing relationship with Gerardo Catena, and in fact, Green and Barnet Sugarman, another investor in K.O.S., acquired one-half of their respective interests in K.O.S. Enterprises for Gerard Catena. Catena was reputed to be a member of organized crime. After

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[1] It should be noted at the outset that New Jersey has a rigorous gambling licensing statute, with well-defined criteria which an applicant must satisfy by "clear and convincing evidence." By contrast, the execution of a contract of this type by the State of New Hampshire is completely within the discretion of the Governor and Council.

[2] Mr. O'Donnell resigned in December, 1979 during the pendency of the DGE investigation, as a condition of the temporary casino permit issued to Bally's Park Place, due to concerns raised by the New Jersey Casino Control Commission about his fitness. Opinion, pp. 14-15.

Bally went "public" in 1971, the only remaining shareholders who had participated in the 1963 acquisition of Lion Manufacturing were O'Donnell, Klein and Kaye. Irving Kaye, who died in 1977, was denied a gaming license by Nevada in 1975 for his numerous business relationships with Catena, "a person of notorious and unsavory reputation." Klein's probationary license was revoked by Nevada in 1976, after he violated the Nevada Gaming Commission's order not to associate with Catena; he was ordered to resign from Bally and divest himself of his stock. However, he and O'Donnell are still partners in the 2640 West Belmont Building Partnership, which leases to Bally the premises on which its major Chicago factory is located. Despite Bally's knowledge that Gerardo Catena was a partner of Green's in Runyon Sales, Bally continued to do business with Runyon Sales until 1974. Opinion, pp. 23-29; DGE Report, pp. 10-20, 52-59.

(2) From the early 1960's through 1973, Bally, through O'Donnell, employed Dino Cellini, a person who has been determined to be an associate of Meyer Lansky and a "person of unsuitable character"; Cellini was excluded in 1965 from the Bahamas and in 1967 from Great Britain because of his association with Meyer Lansky. The Commission found that payments by Bally to Cellini may have been made indirectly to avoid the appearance of Cellini's name on Bally's records. Opinion, p. 29-31; DGE Report, pp. 69-71.

(3) In 1967-1968, Bally, through O'Donnell, participated in an attempt to bribe Kentucky legislators in order to secure an amendment which would legalize bingo games, a move which would benefit O'Donnell and Bally, through the "loan" of at least $4,000 to Gilbert Brawner, owner of Southland Distribution Company. Opinion, pp. 32-35; see also Opinion, p. 59; DGE Report, pp. 49-52.

(4) In 1971, O'Donnell, Bally, and Louis Boasberg, who owned New Orleans Novelty Company, a Bally distributor, were indicted by a federal grand jury for violation of federal laws pertaining to the interstate shipment of gambling equipment. Following a jury trial, Bally and O'Donnell were acquitted, but Boasberg was convicted. He also pled guilty to bribery of public officials, a charge involving the protection of an illegal gaming operation which used Bally machines. Despite these convictions, neither Bally nor O'Donnell took any step to terminate Bally's business dealings with Boasberg and New Orleans Novelty Corp. However, on March 20, 1975, the Nevada Gaming Commission ordered Bally to terminate all business relationships with Boasberg or any company under his control. Notwithstanding this order, Bally continued to do business with Playtime Sales Company, a partnership composed primarily of

Boasberg's children, in the face of clear evidence that Playtime Sales Company was virtually indistinguishable from New Orleans Novelty. On October 27, 1977, the Nevada Gaming Commission specifically found Bally in violation of its 1975 order to terminate business dealings with Boasberg. Opinion, pp. 40-46, DGE Report, pp. 59-62.

(5) The 1975 Nevada order also prohibited Bally from having any business dealings with Abe Green, or any company in which Green had more than 5% of the voting securities or otherwise controlled. This prohibition specifically covered Runyon Sales. Bally, however, continued to deal with Green and Runyon Sales through Coin-Op Corporation, a business purportedly run by Abe Green's son, Irving Green, which was virtually indistinguishable from Runyon Sales. The Commission found Bally's reporting and monitoring of the relationship with Abe Green to be in violation of the Nevada Gaming Commission's 1975 order. Opinion, pp. 47-53; DGE Report, pp. 52-59.

(6) A 1976 order of the Nevada Gaming Commission prohibited Bally and its subsidiaries from employing Sam Klein "in any capacity." Despite this order, Bally utilized Mr. Klein's services in connection with the proposed acquisition by Bally of a Howard Johnson's motel in Atlantic City in 1977, which was not consumated, and to line up the services of William Weinberger as President of Bally's Park Place [New Jersey]. Opinion, pp. 53-57; DGE Report, pp. 45-58.

(7) A 1977 Nevada Gaming Commission order prohibited Bally and any of its subsidiaries from conducting any business with any company controlled by any persons known by Bally to have been convicted of, or granted immunity from prosecution for, any crime related to gambling, moral turpitude, or corruption of public officials. Notwithstanding this order, Bally continued to do business with Albert Hawkins, a principal of Peach State Distributing Company, Bally distributors in Georgia and South Carolina, after Hawkins' convictions for racketeering and illegal gambling; and Harold L. Mims, a principal in Palmetto State Distributing Company, a Bally distributor in South Carolina, after Mims admitted at the trial of co-conspirators that he had bribed public officials to receive preferential treatment for his coin-operated machine business. DGE Report, pp. 62-67.

(8) Alexander Wilms, the founder of Bally Continental, a Bally distributor in Europe, Africa, and the Middle East, which was acquired by Bally in 1969, applied for a Nevada gaming license in 1974, in connection with Bally's application for a license. When his credentials were questioned, he withdrew his application; however, Bally was ordered to secure his resigna-

tion from all positions which he held with Bally or its subsidiaries, and was prohibited from employing him without the Nevada Gaming Commission's consent. He remains a shareholder in Bally. Before the Nevada Gaming Control Board, Mr. Wilms admitted that he had three Belgium convictions for black market offenses; that he associated with, and employed as a sales representative, Dino Cellini; and, as a director of Bally, made a report in which he suggested that bribery of government officials in various Southeast Asian countries should be accomplished through Jack Rooklyn, a Bally distributor in Australia, so that "[t]he Bally image would remain clean." As of 1980, the Wilms family owned approximately 8% of Bally's stock, and as a result, the Commission placed substantial restrictions on Bally's dealings with the Wilms family. Opinion, pp. 67-71; DGE Report, pp. 68-78.

(9) Jack Rooklyn, formerly managing director of Bally Australia, a wholly-owned subsidiary of Bally, was ordered by the Nevada Gaming Commission in 1977 to either resign or submit to licensing, after the Nevada Gaming Commission became concerned that Rooklyn was involved in gaming activities in the Far East in violation of Nevada law. Although he resigned from Bally and neither he nor any company controlled by him has had any significant business relationship with Bally since that time, Rooklyn spent time in Australia with Robert Mullane, Chairman of the Board of Directors and President of Bally, and John Britz, a member of the Board of Director of Bally, in 1981.

(10) William S. Weinberger, who is presently a director of Bally and president of both Bally's Park Place [Delaware] and Bally's Park Place [New Jersey], was hired by O'Donnell after the initial contact was made by Sam Klein. See paragraph 6, infra. Weinberger was formerly president of the Caesar's Palace Casino Hotel in 1968-1970, when, after purchase by Lum's, Inc., the hotel's pretax profit decreased by $3,162,480 in a five-month period. In a raid by the FBI, $1,500,000 in $100 bills was found in locked strongboxes, leading to speculation that there had been "skimming" by those controlling the hotel's operation. The SEC filed suit to enjoin, among others, Mr. Weinberger from engaging in future violations of the antifraud provisions of the Securities Exchange Act of 1934. In the course of the SEC investigation which culminated in this suit, Weinberger invoked the Fifth Amendment and refused to answer any questions on the advice of his attorney. The suit was resolved by entry of a consent decree. DGE Report, pp. 80-84.

(11) In 1974, Justice Moffit, who had been appointed as a Royal Commissioner to investigate allegations of organized crime infiltration of Australian "social clubs," concluded that there was "[a] real and material risk that the Bally operation, if continued here [Australia], will in time be a vehicle, in which

and, alongside which, organized crime will infiltrate or further infiltrate club operations in N.S.W. [New South Wales]." DGE Report, pp. 24-27.

(12) There is presently pending in Illinois a derivative action entitled Zilker v. Klein, et al., which was brought by Bally shareholders, on behalf of Bally, against Klein, O'Donnell, two former directors of Bally and five present directors of Bally. The complaint alleges, inter alia, breaches of fiduciary duties by the present and past directors of Bally and violations of the SEC Act of 1934. This matter, filed in 1977, is still in the pretrial discovery stage. DGE Report, pp. 29-30.

As stated earlier, the DGE concluded on the basis of the above-described incidents, as well as other incidents, that neither Bally nor O'Donnell were fit for licensure. Opinion, pp. 8, 11. The Commission, however, found that Bally, as a corporation, met the standards for licensure, subject to the conditions precluding involvement by O'Donnell or the Wilms family in Bally's affairs, although the Commission determined that "Mr. O'Donnell's previous behavior provides positive proof that he should not be trusted to control a company which seeks licensure either to operate a casino or to supply essential gaming equipment in N.J." See Opinion, pp. 57-58.

It is my position that Bally's extensive dependence upon, and apparent condonation of the activities of Mr. O'Donnell, which the Commission found to be "too proximate and too numerous to be dismissed as isolated, aberrational, petty or stale," see Opinion, p. 59; which did not cease until December, 1979, when O'Donnell resigned in order to expedite temporary licensure of Bally; and which may resume if Mr. O'Donnell's and Bally's appeal of the Commission's opinion is successful, see Opinion, p. 16, draw into serious question Bally's fitness to handle a contract, or contracts, as sensitive as the one proposed here, at the present time.

Very truly yours,

Gregory H. Smith
Attorney General

MVG:ab

ADDENDUM TO ATTORNEY GENERAL GREGORY H. SMITH'S SEPTEMBER 1, 1982 LETTER TO GEORGE LANGLEY, CHAIRMAN, WEBSTER BRIDGES, COMMISSIONER, AN JOHN MARRO, COMMISSIONER, NEW HAMPSHIRE SWEEPSTAKES COMMISSION.

My September 1, 1982 summary was furnished to representatives of Bally Manufacturing and Scientific Games, and they were given an opportunity to respond at a December 8, 1982 meeting of the Sweepstakes Commission. At this meeting, Bally disputed certain inferences which could be drawn from the factual summary prepared by this office. Based upon more recent information furnished by Bally Manufacturing at this meeting, paragraph 10 of my September 1, 1982 letter should be amended to reflect that William Weinberger is a director and president of Bally Park Place, Inc., (New Jersey) but not a director of Bally Manufacturing. Further, Bally informed the Sweepstakes Commission that the *Zilker v. Klein* litigation (see paragraph 12 of my letter) has been settled.

Bally Manufacturing Corporation also prepared a written response to our objections, which was submitted to the Sweepstakes Commission on December 8, 1982.

JAN 1[illegible]

REPRESENTATIVE
1965-67 1971-77 1979-To Present

Capitol: 866-2920

Business: 893-3543
1718 Security Life Bldg.

Home: 333-2174

COLORADO
HOUSE OF REPRESENTATIVES
STATE CAPITOL
DENVER, COLORADO 80203

State Representative
JERRY KOPEL
1755 Glencoe Street
Denver, Colo. 80220

MINORITY WHIP

Member of:

Audit Committee

Legislative Council

Chairman:

Governor's Advisory
Council on Consumer
Credit

State Statutory
Revision Committee

January 13, 1984

Mr. Ira Peak
400 East High St.
Jefferson City, MO 65101

Dear Mr. Peak:

I am writing this letter as an expert witness in the area of the Colorado lottery, its formation, and the concerns we have with its future.

I have enclosed the front page of a speech given to the National Council of State Legislatures in San Antonio, Texas earlier this year and will attempt to briefly amplify on the topic headings, starting with Point No. 2.

The administrative costs of the Colorado lottery are 15 percent of the gross revenues. Since half of the money raised is returned to the bettor in the form of prizes, it costs 15 cents to produce 50 cents of revenue for the state.

Does it cost you 30 cents to collect one dollar on income tax or sales tax? If it costs you more than 8 cents to collect a $1.00 in taxes, something is wrong with your administrators.

Point No. 3. There is only so much disposable income available for Colorado residents. If it is spent on lottery tickets, it is not being spent on something else.

Latest statistics prepared by the Colorado lottery people show that one-third of all purchases of lottery tickets were by people earning less than $15,000 a year and 20 percent earned less than $10,000 a year. Two of the first four instant millionaires in Colorado were unemployed at the time they won.

Page two
I. Peak

Issue No. 4 deals with corruption in the lottery. To date, Colorado's lottery has not had any taint of corruption in its operation. This has not been true in a number of states.

Ohio lottery director, Edwin Taylor, tesified to our legislative committee that when their lottery was established in 1974:

"Immediately, there were problems. Almost immediately. There were allegations that there were organized crime figures lurking, and they were. As a matter of fact, the late Danny Greene was a consultant for our lottery."

He did not explain to our committee who Danny Greene was. Mr. Greene was a member of the Irish Mafia in Cleveland and was killed by a car bomb set by the Italian Mafia.

Mr. Taylor went on:

"There were hoodlum figures working for the Ohio lottery. Of course, they were more or less front-type jobs because there was no profit to be associated with the lottery." He was referring to skimming of money coming in.

Lt. Robert Cantwell, of our Organized Crime Strike Force, gave our committee a detailed report in 1982 of discussions with law enforcement officers in other states in 1981.

In nine states contacted, he found eight states with crime problems relating to the state lotteries, either internally or externally.

Issue No. 5.

Notre Dame Law Professor and organized crime investigator, Robert Blakey, told our committee, "The more and more government competes successfully with organized crime, it becomes more and more like organized crime in the way it exploits people."

Newspaper columnist, Andy Rooney, recently wrote this about the lottery:

> "How can we teach kids that hard work is the way to success if they hear radio commercials paid for by their government suggesting that the way to get rich is to bet on a number?"
>
> "How can Americans who profess to believe in such classic virtues as honesty, thrift, hard work and intelligent action allow any part of the government they formed to run a gambling operation?"

From Gambling in America report:

Lottery players engage in other gambling activities more than the general population, and in particular, are more likely to gamble illegally than are the players of other legal games. There is evidence that the introduction of a state lottery tends to increase participation in numbers games.

Issue No. 6 is the competing numbers game. The lottery numbers game is the best thing that ever happened to the illegal numbers operation. It has not cut into the illegal market, and it has given credibility to the numbers used, since they are state controlled numbers.

The illegal numbers game will use Missouri's winning lottery number for its own game, they will pay more to the consumer, avoid taxes on winnings, give credit, and take numbers by phone. The state cannot compete sucessfully.

Issue No. 1 is your decision. Lotteries do not exist except to increase revenues on a yearly basis. If a population loses interest in a game, the lottery will move to a more intensive game. Colorado is going from an instant ticket, to a computer terminal lotto game. The next generation game will be the video slot machine, and the generation after that is the home cable television game.

Sincerely,

Jerry Kopel

Jerry Kopel

GHK/ljr

By State Rep. Jerry Kopel (Colorado)

Selected Readings for Legislators Considering Lotteries

1. Report to the Casino Control Commission of New Jersey regarding Bally Manufacturing Corp. by the Division of Gaming Enforcement of the Department of Law, dated Aug. 4, 1980.

2. Report on eligibility of Bally to hold Florida Gambling licenses by the staff of Department of Business Regulation to the Division of Pari-Mutual Wagering of Florida, Dec. 31, 1977.

3. Gambling in America, the final report of the Commission on Review of National Policy Toward Gambling, 1976.

4. State Conducted Lotteries, by Robert Blakey, law professor at Notre Dame, and organized crime investigator, published by Journal of Social Issues, Vol. 35, Nov. 3, 1979.

Subject Matter

1. Should a state run and promote a lottery game?

2. Lottery is the most regressive form of raising revenue.

3. Money spent on lottery is not new money but diverted money.

4. Lottery corruption can extend into the lottery itself, and it has.

5. Lottery breeds disrespect for the law by forbidding others from doing what the state is doing: running a numbers racket.

6. State numbers game invites competition from organized crime.

21 MAY 1984
Riverside Press Enterprise

Loca
The Press-Enter

Deukmejian calls lottery too costly

Governors open 4-day session in Palm Springs

By HERB PASIK
Palm Springs Bureau

PALM SPRINGS — Gov. Deukmejian yesterday suggested a proposed state lottery to help fund public schools was a losing gamble.

Deukmejian said he was "not supportive of a lottery" on his arrival in Palm Springs as host governor for the first annual meeting of the Western Governors' Association.

The four-day conference of governors from 19 western states, Alaska, Hawaii and American Pacific Islands, opened yesterday at the Americana Canyon Hotel with a closed session on ways to improve congressional monitoring and states-interest advocacy in Washington, D. C.

The air-conditioned lobby of the posh hotel in the southerly part of this desert resort city swarmed with incoming governors and their aides. Most of them quickly shed their jackets and ties and changed into lighter, more comfortable clothing to match the 100-degree-plus temperature.

The governors are scheduled to meet today with Secretary of the Interior William Clark [illegible] Wednesday from Environmental Protection Agency administrator William Ruckelshaus.

They also will exchange views on the significance of legal and illegal immigration in western states, western agriculture, negotiating Indian water rights and other issues.

The governors [illegible] to hear [illegible] tomorrow from Jesus Silva Herzog Flores, Mexico's treasury minister, and Grant Devine, [illegible] province of Saskatchewan, Canada.

Deukmejian, who arrived in Palm Springs at 1 p.m. yesterday after a flight from Long Beach in a private plane, said in a brief plane-side interview he opposes a state lottery for many reasons.

The Republican governor, asked to comment on Thursday's submittal of more than a million signatures backing a lottery initiative for the November ballot, characterized the proposal as "just another form of a tax."

"Very few people would realize anything from it," said Deukmejian, a former state attorney general. "Of the total amount raised in a lottery, only one-third would wind up going to education. Half of it goes for prizes and another third for administering it. You're really talking about a very small amount going to education."

From the standpoint of cost effectiveness, Deukmejian said, there is "far less overhead" to administer the state's income and sales tax programs. He noted that lottery initiatives had been proposed in the past.

The current proposal, a constitutional amendment, needs valid signatures of at least 630,136 registered voters to make the ballot. Supporters said they turned [illegible] signatures to election officials in the state's counties.

According to the office of Secretary of State March Fong Eu, it is likely the signatures could be verified before the June 28 deadline for placing measures on the November ballot.

Half the lottery's gross revenue would go to prize winners in individual amounts ranging from

(See GOVERNOR, Page B-3)

(From Page B-1)

$2 to $1 million or more, said Californians for Better Education, the initiative's sponsors.

The group said the proposal would state that administration costs could total no more than 16 percent of lottery revenue and that all profits — at least 34 percent of the revenue — would go to the state for public education programs.

Lieutenant Governor
Leo McCarthy
State of California

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NEWS RELEASE: Monday, June 25, 1984

LIEUTENANT GOVERNOR VOICES OPPOSITION TO STATE LOTTERY INITIATIVE

Lieutenant Governor Leo McCarthy today warned that the newly-qualified ballot initiative to create a state lottery is "wishful thinking, institutionalized greed and very bad business."

Lt. Gov. McCarthy issued the following statement upon learning that the initiative's signatures had been certified as sufficient to place the measure on the November ballot:

"The danger of a state lottery is that it has public appeal for all the wrong reasons; it is a combination of wishful thinking, institutionalized greed and very bad business.

"It appeals to the wishful thinkers because it seems to offer a chance for government to get the public's money without having to raise taxes, merely by offering the unlikely possibility that the occasional purchase of a ticket might somehow provide instant wealth.

"The lottery takes that 'something for almost nothing' appeal and institutionalizes it by making it an official function — almost a patriotic duty. To me, that's just government through greed.

MORE - MORE - MORE

"Finally, the lottery is just plain bad business. It does not offer a predictable source of income on which to decide the state's spending priorities. As a source of education funding, it makes the future of our children dependent upon the public willingness to buy lottery tickets. Experience shows that lotteries are not a steady revenue source; they start off big and then diminish in succeeding years.

"Also, of course, there is the ultimate paradox. The money for the lottery comes most often from those who can least afford it, worsening their conditions and making them more dependent on aid from the taxpayers.

"A lottery can never replace sound government funding and an assured revenue base as a way of building an effective educational system.

"The lottery does, however, frequently teach one very educational lesson: that when the government plays gambling games, nearly everyone is the loser."

///

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State of California
Office of the Attorney General
John K. Van de Kamp
Attorney General

July 3, 1984

Rev. Harvey N. Chinn, Director
Coalition Against Legalizing Lotteries
803 Vallejo
Sacramento, CA 95818

Dear Rev. Chinn:

I am pleased to hear of the efforts by you and other church leaders in California to organize effective opposition to the initiative establishing a state lottery and look forward to working with you in that endeavor.

As you know, I have long been opposed to the establishment of a state lottery in California. Details of my opposition are contained in the attached article which was widely published in newspapers throughout California.

Legalization of new or expanded forms of gambling is repeatedly dangled before the Legislature and the public as a "painless" way to raise much-needed revenue. The fact is that such revenues would be only a small and unreliable part of total state revenues.

Lotteries are a form of hidden regressive taxation — that is, they are most apt to fall on those who can least afford it. Progressive tax policies for raising revenues, wherein the heaviest burdens fall on those most able to afford them, are more equitable and available to meet existing needs.

Furthermore, overhead for starting and running the games is high; new games must be constantly created; continuous advertising is necessary. Illegal games tend to "feed" off the state lotteries, and the problems of compulsive gamblers are exacerbated.

I will be in Los Angeles Thursday, July 5 and unable to attend your news conference at the Capitol to announce formation of the Coalition Against Legalizing Lotteries. I have asked that a representative of my office be present.

Thank you for your interest.

Very truly yours,

JOHN K. VAN DE KAMP
Attorney General

vdb
Attach.

Sacramento Union
March 8, 1984

Lotteries: more minuses than pluses

John K. Van de Kamp

You're seven times more likely to be killed by lightning than to win in a state lottery.
—*"Lotto Baloney" by Curt Suplee, Harper's Magazine, July 1983.*

An intensive effort is under way in California to add this state to the 17 which currently operate lotteries. Although lottery proposals have been made with predictable regularity for years in California, never has the danger of their passing been more acute than this year.

"The odds are good that Californians this year get their first-ever chance to vote on a state-run lottery," the Los Angeles Times reported Feb. 24. "The odds are even better that voters would overwhelmingly approve a state lottery."

Lottery proposals have been introduced before in California, and they have failed. The difference today is money. For this year a powerful consortium of individual and corporate interests—with primary funding reportedly coming from a firm that manufactures lottery tickets—is financing an intensive, expensive and sophisticated effort to qualify a lottery proposal for the November ballot.

The firm, "Scientific Games Inc." of Atlanta, helped sponsor successful ballot drives in Arizona, Colorado and Washington, D.C. According to the Times, it is a subsidiary of Bally Manufacturing, which is the nation's largest manufacturer of slot machines.

That latter fact alone should prompt concern. There is considerable evidence to indicate that gambling—once allowed to have a legal life of its own under the aegis of the state—becomes a kind of monster. States that once held lottery drawings annually begin to hold them monthly, then daily.

Those states might well "set out to control gambling by monopolizing it," as one critic put it, "but in the process become hooked on the vice themselves."

In addition to efforts to qualify the measure for the November ballot, there is the usual array of legislative proposals—all with the common theme of raising money "painlessly" for the benefit of essential state services. Most such proposals are designed to benefit education—a laudable notion, certainly, but strangely inappropriate as an exemplary source of funding for the future of our children.

Not surprisingly, the major educational organizations are leery of supporting the proposals. A lobbyist for the 14,000-member California Federation of Teachers described the distribution of funding derived from lotteries as "a shell game."

And a shell game it is. Legalization of new or expanded forms of gambling is repeatedly dangled before the California Legislature and the public as a "painless" way to raise much-needed revenue—despite the fact that such revenues would be only a small part of total state revenues, and an extremely unreliable source at that.

Furthermore, gambling is not painless—not when the state actively capitalizes on human weakness, raising hopes of getting rich quick. Many studies show that gambling hurts those who can least afford it—the poor. A study of Michigan players found that low-income people spent a larger percentage of their small incomes on the lottery—although less "in absolute terms" than was spent by those with higher incomes.

In Colorado last year, a welfare recipient won $10,000 in the state lottery—her net benefit being $7,600, which she promptly spent. At the same time, the state of Colorado reduced her welfare and food stamp benefits by $7,600.

Lotteries are a form of hidden regressive taxation—that is, they are most apt to fall on those who can least afford it, low and middle income people. Progressive policies for raising revenues, wherein the heaviest burdens fall on those most able to afford them, are more equitable and available to meet existing needs.

Taxes on gambling, then, are usually masked. In a state-run lottery, for example, ticket holders receive about 50 cents on the dollar—the remaining 50 cents going to the operators of the lottery and to the state and local government in revenue.

For that reason, lotteries have quite aptly been dubbed "looteries." A prudent investment they are not. Or as Richard Newell, vice-president of Scientific Games, so aptly admitted to Harper's Magazine: "You don't play the lottery as an alternative to investing in CD's (certificates of deposit), that's for sure."

Based on a survey by the attorney general's office of states which currently operate lotteries (17 states and the District of Columbia), the amount wagered nationwide in 1982 on lotteries exceeded $3 billion. Yet, for every dollar wagered, no more than half comes back to the players as prizes.

Furthermore, overhead for starting and running the games is high; continuous advertising is necessary.

The net revenue to the state is small. On the average, the revenue actually obtained constitutes between 1.5 percent and 3 percent of the state's total budget.

"This mighty engine of income redistribution accounts for only a small part of overall state budgets," Harper's noted in its stunning denunciation of lotteries last year.

Other revenue sources—progressive income taxes, sales taxes on luxury items, closure of certain tax loopholes, so-called "sin" taxes—are considerably less regressive, more stable and lacking the social and law enforcement problems associated with widespread gambling.

Statement on Lotteries by Attorney General John Van de Kamp - p. 2

Sacramento Union - March 5, 1984

In addition to the fact that lotteries are poor, unstable sources of public funding, it is clear that they tend to encourage illegal gambling as well. The oft-quoted contention that "people are going to gamble so why not make it legal?" is hype.

Based on experiences in other states, legalized betting promotes an environment in which illegal gambling "feeds" off state-run gambling operations. The Congressional Quarterly reported in 1979 that "potentially the most destructive side-effect of legal betting is that a multi-million dollar illegal trade will flourish side-by-side with state-promoted games."

There is also considerable evidence that introduction of state lotteries and other forms of state-run gambling increases the extent and severity of compulsive gambling. In its landmark 1976 study, Gambling in America, the National Commission on the Review of Gambling found that compulsive gambling is exacerbated by the easy availability of legal forms of gambling. And, the commission reported, lottery players are more likely to gamble illegally than are the players of other legal games, playing illegal numbers at nearly twice the rate of other bettors.

JOHN VAN DE KAMP

The risk is clear. Certainly, those concerned with good government, can find better ways to meet this state's obligations without becoming an active partner in an enterprise that preys on human weakness.

These lottery proposals pose a challenge to all of us.

In a sense, they offer us an opportunity to decide what kind of atmosphere in which we wish to live and raise our children. One with a "get-rich-quick" ethic? Or one tilted toward more fundamental values, such as the work ethic?

I choose the latter. In so doing I'll work to defeat the lottery proposals.

John K. Van de Kamp is attorney general of the state of California.

A 10 The Seattle Times Wednesday, August 8, 1984

EDITORIALS

The Seattle Times
AN INDEPENDENT NEWSPAPER
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OLYMPIA'S APPEAL TO GREED

Isn't it time to end lotteries?

SO A visitor from Alabama, where lotteries are illegal (as they are in most states), has knocked off a $1.5 million prize in this state's first "big lotto," the six-digit computerized drawing designed to hype sagging patronage of the Washington lottery.

We're still not impressed. With the wisdom of state government running a numbers game, that is. While no one begrudges Linda Stephenson of Birmingham the sudden wealth she now will take back to Alabama, heavy publicity about her winnings unfortunately will inspire more false hopes among thousands of citizens that they, too, can become instant millionaires.

Curt Suplee, a Washington Post reporter, once gave an accurate description of the phenomenon that keeps state lotteries in business: "A fool and his money," Suplee wrote in Harpers, "are soon parlayed."

Never mind the ludicrously unfavorable odds. Statisticians say a player in a $1 million game is seven times more likely to be killed by lightning than to win the big prize. Yet whatever the length of the odds, the bettors will be ready to spend their money as long as jackpots continue to grow.

Thus, state governments sponsoring lotteries place themselves in the position of appealing to nothing more than human greed while simultaneously perpetrating a form of consumer fraud.

Surely it's time to rid Washington state of this needless baggage.

Several months ago, Governor Spellman expressed hope that an improving economy some day would reduce the need to supplement general-fund revenues with lottery income. Well, the regional economy has been improving lately.

So why not begin thinking in terms of a state-lottery phaseout with the start of a new budget biennium in 1985? We'd like to hear Republican Spellman and his Democratic challengers debate that question as voters ponder their gubernatorial choices for 1984.

THE DES MOINES REGISTER ■ Fri., Aug. 3, 1984

Babbitt warns Iowans against state lotteries

By TOM WITOSKY

Register Staff Writer

CLEAR LAKE, IA. — Arizona Gov. Bruce Babbitt said here Thursday he regrets his state's creation of a lottery, and he advised Iowans to resist the gambling temptation.

"I'm telling you lotteries amount only to the state stepping in and endorsing gambling as a way of life. The revenue is disappointing, and it attracts all kinds of flakey characters who hang around the fringes," Babbitt said.

The two-term Democratic governor added, "The same kind of flakey characters" hang around Arizona's pari-mutuel race tracks.

Babbitt, 46, made his comments at a news conference prior to speaking at a political fund-raiser here sponsored by the 6th District Democratic Party Committee.

He said he regrets the 1980 approval by Arizona voters of an initiative requiring the state to establish a lottery. Arizona lawmakers and the governor had refused to consider the issue until after the 1980 election.

On other topics, he said that while he is a strong proponent of the 21-year-old drinking age, he disapproves of recent congressional action to force each state to adopt that age limit. "I think that this is just another example of the federal government getting into a local community issue that it has no right to get involved in," Babbitt said.

Arizona lawmakers approved raising the age from 19 to 21 this year.

Bruce Babbitt
Regrets Arizona lottery

Babbitt, considered a rising star of the Democratic Party, described himself as committed to "social justice and equality" but conceded he is "far more fiscally conservative" than most Democratic leaders.

As evidence, he said the federal government should begin targeting all benefit programs, including Social Security and farm aid, to those with the greatest need.

He said federal money should not be spent on programs to benefit the wealthy. He asked, "Why should a secretary with two children pay exorbitant Social Security taxes to bankroll the pension checks of David Rockefeller or Malcolm Forbes?"

OREGON
Statesman Journal
Tuesday, July 24, 1984
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$150,000 spent to get state lottery on ballot

Photo on Page 1B.

By SUE HILL
Of the Statesman-Journal

The campaign to get a state lottery onto the November ballot was the most costly in a season when petitioners spent nearly $434,000 seeking to enact laws without benefit of the Legislature.

Lottery supporters, financed almost entirely by a Georgia company that manufactures lottery tickets, spent about $150,000 collecting signatures to qualify for a berth on the ballot.

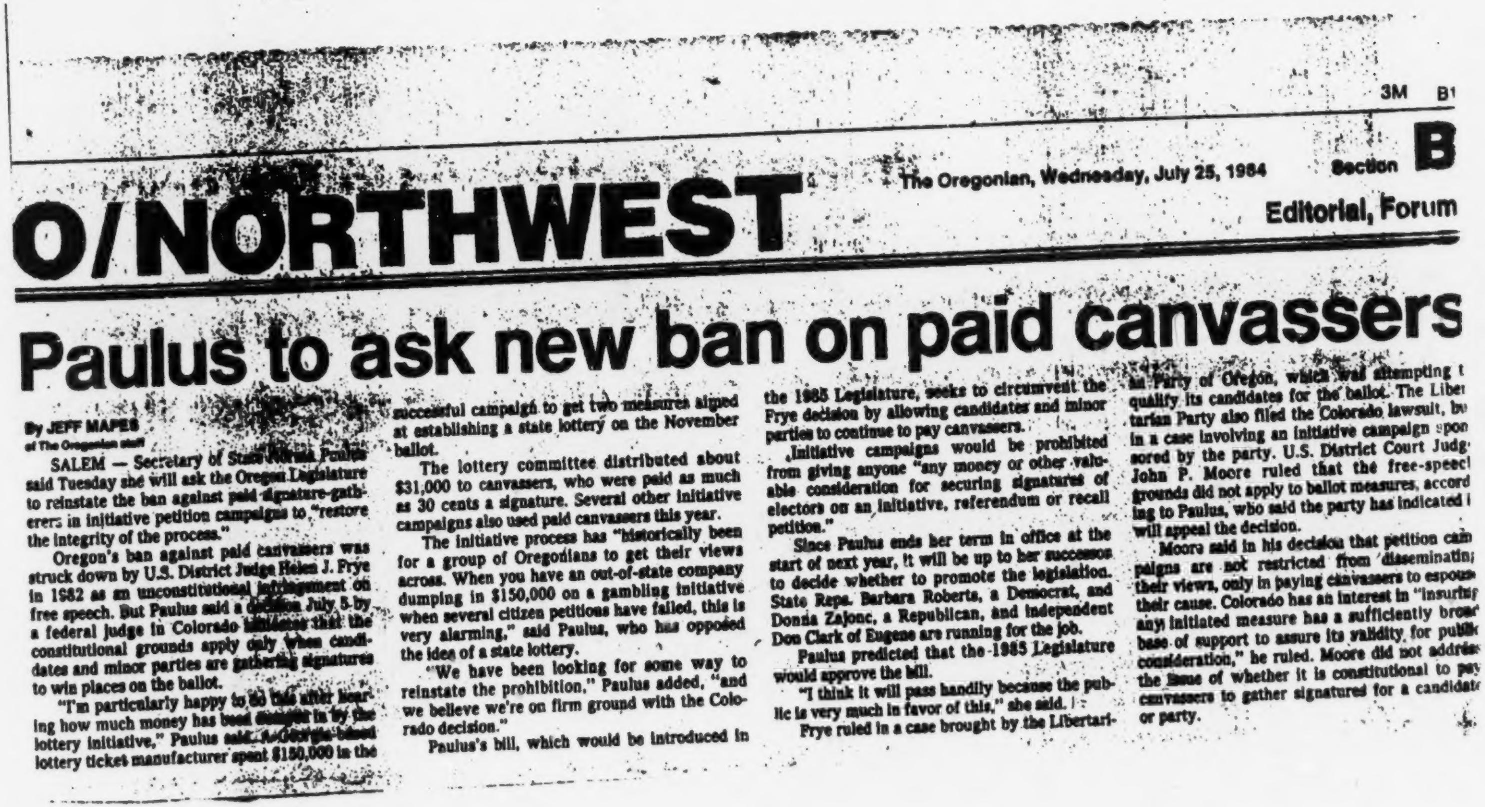
The lottery campaign relied heavily on paid petition circulators under a new law allowing hired help to collect signatures. According to financial reports filed with the secretary of state's office, at least $31,000 was paid to Oregonians enlisted through newspaper ads to solicit signatures.

campaign to put a radioactive waste disposal limitation measure on the ballot paid out about $620; the successful crime victims' measure, about $520.

The reports showed the following amounts of money spent by successful campaigns.

- The lottery, which will appear as two separate measures on the ballot: $149,923.
- The 1½ percent property tax limit: $58,309.
- The crime victims' rights measure, which would beef up police powers and court proceedings: $38,000.
- The death penalty, which will appear as two separate ballot measures: $20,017.
- A citizens' utility board measure.

Turn to MEASURES, Page 9A.



3M B1

The Oregonian, Wednesday, July 25, 1984

Section B

Editorial, Forum

O/NORTHWEST

Paulus to ask new ban on paid canvassers

By JEFF MAPES
of The Oregonian staff

SALEM — Secretary of State Norma Paulus said Tuesday she will ask the Oregon Legislature to reinstate the ban against paid signature-gatherers in initiative petition campaigns to "restore the integrity of the process."

Oregon's ban against paid canvassers was struck down by U.S. District Judge Helen J. Frye in 1982 as an unconstitutional infringement on free speech. But Paulus said a decision July 5 by a federal judge in Colorado indicates that the constitutional grounds apply only when candidates and minor parties are gathering signatures to win places on the ballot.

"I'm particularly happy to do this after hearing how much money has been dumped in by the lottery initiative," Paulus said. A Georgia-based lottery ticket manufacturer spent $150,000 in the successful campaign to get two measures aimed at establishing a state lottery on the November ballot.

The lottery committee distributed about $31,000 to canvassers, who were paid as much as 30 cents a signature. Several other initiative campaigns also used paid canvassers this year.

The initiative process has "historically been for a group of Oregonians to get their views across. When you have an out-of-state company dumping in $150,000 on a gambling initiative when several citizen petitions have failed, this is very alarming," said Paulus, who has opposed the idea of a state lottery.

"We have been looking for some way to reinstate the prohibition," Paulus added, "and we believe we're on firm ground with the Colorado decision."

Paulus's bill, which would be introduced in the 1985 Legislature, seeks to circumvent the Frye decision by allowing candidates and minor parties to continue to pay canvassers.

Initiative campaigns would be prohibited from giving anyone "any money or other valuable consideration for securing signatures of electors on an initiative, referendum or recall petition."

Since Paulus ends her term in office at the start of next year, it will be up to her successor to decide whether to promote the legislation. State Reps. Barbara Roberts, a Democrat, and Donna Zajonc, a Republican, and independent Don Clark of Eugene are running for the job.

Paulus predicted that the 1985 Legislature would approve the bill.

"I think it will pass handily because the public is very much in favor of this," she said.

Frye ruled in a case brought by the Libertarian Party of Oregon, which was attempting t qualify its candidates for the ballot. The Liber tarian Party also filed the Colorado lawsuit, bu in a case involving an initiative campaign spon sored by the party. U.S. District Court Judg John P. Moore ruled that the free-speec grounds did not apply to ballot measures, accord ing to Paulus, who said the party has indicated i will appeal the decision.

Moore said in his decision that petition cam paigns are not restricted from disseminatin their views, only in paying canvassers to espous their cause. Colorado has an interest in "insurin any initiated measure has a sufficiently broa base of support to assure its validity for publi consideration," he ruled. Moore did not addres the issue of whether it is constitutional to pa canvassers to gather signatures for a candidat or party.

Editorial

Fundraising by lotteries: a bad bet for California

Seventeen states are raising hundreds of millions of dollars for their treasuries with lotteries, everyone seems to be having fun and crime reportedly isn't a problem there. Still, California should think twice before jumping on that bandwagon.

With a $2 billion surplus forecast, a lottery is not needed to solve state fiscal ills. But a lottery may create a fiscal crisis if the new money finances new ongoing programs. Although lotteries often produce a surge of revenue at first, income then falls off sharply as the novelty and enthusiasm drop.

In addition, California's law enforcement people solidly oppose lotteries. Even though states with lotteries reportedly have experienced no crime, there's a big difference. Unlike Californians, citizens of those states already played heavily in illegal numbers games. Those lotteries diverted citizens from an illegal activity into a state-controlled one. In California, the state would be using full-scale ad campaigns to create an interest in gambling that does not exist within our society.

But lotteries deserve a thumbs down reception in California for a more basic reason. A healthy society prospers and moves ahead through hard work, creativity and thrift, not on a roll of the dice. Part of a sound business climate rests on the extent to which those social mores promoting work are held by the citizens. With a lottery comes state advertising campaigns designed to change citizens' attitudes toward gambling. More people would hope to enhance their family finances with gambling and fewer in society would feel responsible for improving their lot in life through hard work, thrift and self-betterment. TV ads will show the few winners who can pay off old bills and send their kids to college, and will ignore the millions who lose in a scheme where only 50 percent of the revenues are returned as prizes.

If California does need more money in the future for necessary programs, then we should have the fortitude to pay with taxes rather than seeking a "painless" way out, such as taking a trip to the state casino.

Jim Kennedy
Taxation

Motion Picture Council

The Motion Picture Development Act of 1984 is proposed by AB 2966 (Farr et al). The bill, introduced February 13, revises membership of the existing Motion Picture Council and adds new duties to the council for the promotion of motion picture production in California.

The bill, which is sponsored by Assembly Economic Development and New Technologies, appropriates $200,000 from the General Fund to support proposed activities. Not assigned to committee at this time. Chamber position pending.

Chamber calendar

Regional Legislative Forums — (March 13 - La Jolla/Anaheim; March 14 - Torrance/San Bernardino; March 15 - Ventura/Los Angeles; March 20 - Sacramento/San Jose; March 21 - Modesto; March 22 - Berkeley)

Statewide Consumer Affairs Committee — (March 22 - Sacramento)

Coming up

The California Chamber's positions on the nine propositions slated for the June primary ballot will be reported in the next issue of ***Alert***.

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Senator **Durenberger**. Our last panel this morning consists of three gentlemen involved with State lotteries.

Our first witness is Representative Frank Pistella, a member of the Pennsylvania House of Representatives for 4 years. He serves on the Business, Commerce and Finance Commitees, and he is testifying on behalf of the National Conference of State Legislatures. Pennsylvania does have a lottery.

We also have Representative John Brandl of Minnesota. John has been a State representative for 6 years, is currently assistant Democratic majority leader in the Minnesota House of Representatives, and I am trying very hard to make him the assistant minority leader after the election.

In addition to serving in the Minnesota State Legislature, John is a professor of public affairs at the Humphrey Institute of Public Affairs at the University of Minnesota. Minnesota is currently considering a State lottery.

Dr. Charles Clotfelter is vice provost for academic policy and planning at Duke University and is currently professor of public studies and economics at Duke, and has been since 1979.

Thank you, all three of you, for being here. Your testimony will be made part of the record, and we will begin as you were introduced, unless somebody has an airplane to catch.

Representative Pistella?

TESTIMONY OF REPRESENTATIVE FRANK J. PISTELLA, PENNSYLVANIA STATE LEGISLATURE, ON BEHALF OF THE NATIONAL CONFERENCE OF STATE LEGISLATURES; REPRESENTATIVE JOHN BRANDL, MINNESOTA STATE LEGISLATURE; AND CHARLES T. CLOTFELTER, PROFESSOR OF PUBLIC POLICY AND ECONOMICS, DUKE UNIVERSITY

Mr. **Pistella**. Thank you, Mr. Chairman.

I am going to tell you a little about the experience that we have had in the State of Pennsylvania in regards to our lottery.

It became law on August 26, 1971, and became operational on March 7, 1972. The intention of the lottery was to fund a property tax/rent rebate, or a property tax circuit breaker program for our senior citizens. I want to emphasize that the proceeds of the revenue that we garner from our lottery goes in fact to senior citizen programs, and nothing else.

We have recently instituted a new prescription program, a pace program, in which we allow senior citizens to qualify under income levels to acquire pharmaceutical purchases with a $4 copayment, the Commonwealth of Pennsylvania paying the rest of that money, and that is going to go into effect shortly.

We have income guideline. It began in 1971 with a property tax/rent rebate starting out at $200 to those citizens with incomes of $7,499 or less. Now that has grown to $500 maximum to those individuals with incomes below $12,000, so there has been a growth in that particular program.

In addition, our pace program allows participation for individuals—single individuals—with incomes not exceeding $9,000, and $12,000 for a married couple.

As I had mentioned, all of our money goes to senior citizens. In addition to these two programs I have mentioned, we also provide for free offpeak transportation on mass public transportation for senior citizens, partial funding for nursing homes, administrative funds for some of the programs in our department of aging, and inflation dividends for our senior citiznes. These last are a graduated series of fixed payments to eligible senior citizens under the property tax/rent rebate program.

Very briefly, I would like to explain some of our lottery growth. I would like to draw your attention to table 1 of the attachment, and you will notice that lottery sales in fiscal year 1972 to 1973—this is our first full fiscal year of this particular program—garnered $124.4 million in revenue to the State, and our most recently ended fiscal year, fiscal year 1983 to 1984, that has gone to $1.24 billion.[1]

New games have been introduced periodically, and games in which there has been a dropoff in participation have in fact been dropped from the program.

During the last fiscal year, approximately 80 percent of the ticket sales were generated by three computerized games now offered by the lottery.

I think that this level of growth indicates the high support that it receives in the Commonwealth of Pennsylvania among its citizens, in spite of the fact that there had been an incident that was referred to by one of the previous speakers in which a well-known TV personality and one of the lottery officials were, in fact, indicted, found guilty, sentenced, and have served time for tampering with the lottery.

I would like to emphasize the fact that that incident has been put behind the citizens of the Commonwealth of Pennsylvania, and we still do enjoy avid participation among our citizens.

Very briefly, I want to touch—and I realize this may be difficult, Senator, for you to follow—but the accounting principle that we used when we first began this particular program of the lottery, the expenditures at the beginning of the fiscal year when property tax/rent rebate checks were mailed to senior citizens, they were then used to reimburse them for their property tax or rent expenses.

Now, what had happened was the lottery money flowed constantly through the course of the year, so we had a bit of difficulty in establishing the amount of money needed to fix a surplus at the end of the year in order to allow for the amount of money that would go out immediately the next year.

What we in fact had done, realizing that this was not good as a planning tool was to allow the lottery commission to anticipate its revenue and as a result we were able to adjust, then, at that particular point the accounting principle so that the lottery could in fact borrow from the general fund against its anticipated revenue.

As a matter of fact, the program has become so successful, in all honesty, there are times when we have in fact borrowed from the lottery for the general fund, solely on a short-term basis. We do not mix the revenues that come in from the lottery. Those are kept in separate funds. They are not mixed with the general funds at all.

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[1] See p. 252.

We are now at a point where we have adequate cash flow, and there is no difficulty as far as the revenue expenditure goes.

To explain what we do with out lottery, I would like to draw your attention to table 2, and that the 49 percent, or 49 cents of every dollar, is returned to the lottery player in the form of prizes.[1] You have heard testimony on the portion used for prizes.

Forty-two percent of the lottery fund expenditures are for senior citizens programs. Our law provides that no less than 30 percent of ticket sales revenues must be dedicated to the property tax/rent rebate program, and the reduced fare for the elderly.

Five percent of the lottery expenditures are in the form of commissions to our agents.

There are a network of approximately 8,200 independent retailers, and of those, 2,500 have computer terminals; 1.5 percent of our lottery expenditures go toward maintaining this computer system, and finally we have 2.5 percent of our expenditures for the operating cost of running the lottery, and this includes the lottery bureau, advertising, market and research and development of new games.

As to the question as to who would play, I would like to draw your attention to table 3 in the appendix, and this is a survey of lottery players done in 1978, and again one in 1981, it has it broken down into various categories.[2]

There is an updated survey presently underway, and it will be available in early 1985. I will be more than happy to forward that to your committee at the appropriate time.

One piece of information we could not provide, which I believe you had requested, was the amount of lottery tickets per person per week. We could not provide that information to you because we have a problem with our method of determining that particular statistic.

I can give you an example of two programs: The instant lotteries, the ones where you buy the ticket and you rub off the covering to find out if you won or not, those games have a tendency to spike, usually after the third or fourth week of the life of the game. They reach a maximum point, and then they have a tendency to drop off. Therefore, we need to roll them over, so it is difficult to establish, then, how much was spent in that particular lottery.

And with our lotto, which is the seven-digit number, we have a situation where, if the prize does not go in one particular drawing, it is carried to the next one, and as a result the prize naturally increases.

And we have found that there is a corresponding increase in the number of people who would play as that particular prize increases.

It is something I feel, in conclusion, that I could say we have enjoyed great success in the Commonwealth of Pennsylvania with our lottery. It has enabled our State to provide a number of benefits to our senior citizens we could never have hoped to afford out of the revenue we currently collect.

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[1] See p. 253.

[2] See p. 254.

I think that it is a good revenue-raising program. It has enjoyed support in the general assembly, it has enjoyed support among our administrative cabinet-level officials, among our citizens, and our business community alike.

I understand that the NCSL is presently doing a study on tax policies to assist senior citizens, and it is our understanding that our lottery will be used as a case study in this particular project, and I would think that perhaps at that time you may wish to work with that report. I would be more than happy to attempt to answer any questions that you or your staff have.

Senator **Durenberger**. Thank you very much.

John Brandl?

Mr. **Brandl**. Thank you, Mr. Chairman, and thank you for your earlier introduction. I might say that I am trying to make you the ranking minority member of the subcommittee. [Laughter.]

Senator **Durenberger**. I get the first crack at you, though. You have to wait 4 years. [Laughter.]

Mr. **Brandl**. The assignment given me today is to present a political-economic argument against the lottery.

First, a word on some of the other arguments that have been presented here this morning, pro and con. Proponents have argued that since gambling is inevitable, it would be good to have legal and clean lotteries supplant the illegal and dangerous varieties. They have also said that it is an entertaining and voluntary alternative to taxes, which I have noticed are neither, and a majority of people appear to favor a lottery.

And in response, there are numerous reasons for opposing a State lottery, some of them well argued today: That the success of a lottery required government to be in the unseemly position of encouraging and preying on our ignoble impulses, inducing and increasing the incidence of compulsive gambling. The balance of the testimony today has made that case very well, that the huge increases in compulsive gambling over the past decade at least coincide with the increase in legalized gambling.

And half, or less, of the money bet is returned to winners. The rest constitutes a tax that is, in fact, regressive. And it is markedly expensive to administer. I will return to that.

But when debating the lottery question in Minnesota, I make an argument which hasn't been presented here today, one that is powerful, and it is directly responsive to what proponents there, anyway, claim is the main argument for a lottery. Let me just quote the argument from a leading proponent of a State lottery in Minnesota.

He says that,

> The major single reason why we should have a lottery is based on economics. A State lottery could act as a stimulant for many small businesses, since agents would receive a commission for all their sales. This additional revenue could be used to help those businesses grow or to meet their operating expenses.

Now, for the society as a whole to experience economic growth, the lottery would either have to constitute new spending, spending that wasn't going to take place otherwise, or investment in bright ideas, new technology, better ways of making use of our resources, so that we have more made from our resources in the end that we would otherwise.

Neither occurs when the net receipts of some stores rise because of sales of lottery tickets, since what happens is that, instead of spending their money on movies, or savings bonds, or groceries, people are spending the money on lottery tickets.

It simply can't be argued that there is a net increase in economic activity as the result of lotteries.

Jobs have been created for new sales clerks and for advertisers, and for government overseers. An equivalent number of jobs has been uncreated someplace else, whenever the money had not been spent. Money has been shuffled about. No net increase in jobs or wealth has resulted.

Now the retort has come back, I think very well presented by Representative Pistella this morning and other that, "Well, we are going to earmark the money. We are going to do good deeds with the money. It is going to go into economic development, or it is going to go into education, or it is going to go into social services for people who need them."

Be that as it may, Mr. Chairman, you pointed out in your question a little earlier this morning, that this is probably the single most expensive way for the government to raise money. You said if you have a sales tax, it might cost a percent or two to administer that.

Now, I am going to have to go back and check the numbers which our research people have given me on this, because they seemed a little higher than the numbers that have been presented here this morning.

In any event, the combined amount of money spent to advertise and administer and oversee a lottery is higher than the administrative costs for any of the other ways that we have of raising money.

Finally, I would like to make a general point about this. Too often the government justifies an action, whether it is a lottery, or a building project, or whatever, by extolling the benefits. They say jobs are created. That is the vogue these days, that is the big issue, jobs are created. But we ignore the cost. The corresponding number of jobs lost by the diversion of spending from elsewhere or, as Mr. Fulcher said, the external or spinoff disadvantages or costs of a lottery, we ignore those.

Well, to my mind, it is acceptable behavior for a private firm to ignore the effects of its having gained new revenues from sales, the effect of that on other private firms. That is fine. That is acceptable behavior for a private firm. But a government, exactly because we have a responsibility for looking out for all of the citizens, the government has to, ought to, trace down all the practically discernible effect of its actions.

When we do that, we simply can't make an argument that the economy is improved by legalizing gambling.

In conclusion, I would just say that a society that is in need of hard work and discipline and saving and investment in economic growth is not well advised to put its hopes in a lottery.

Senator **Durenberger**. Thank you very much.

Mr. Clotfelter?

Mr. CLOTFELTER. Mr. Chairman, I come today with my professor's hat on, and I am in the middle of the pros and cons. With your permission I would like to give my perspective on a couple of what I think are the most important issues related to State lotteries as a revenue source.

I would certainly agree with Mr. Brandl in the conclusion that a lottery itself will not create an economic boom.

The first page of my testimony had to do with the great growth in lotteries. That has been well covered. The annual growth rate in sales was 23 percent between 1973 and 1983, and lotteries constitute the fourth largest revenue source in Illinois, the third largest in Maryland. It is a force to be reckoned with. It is a fiscal phenomenon if there ever has been one.

Another point that has been covered well, and that I would have made if it hadn't been covered, is that lotteries use advertising aggressively sometimes, and always actively: periodic introduction of new games, with names such as "Money Tree," "Lucky Bucks," "Lottery Derby," and so on, and advertising is also an important part.

Maybe the first point I can make as an economist is just to address the question of why do people play. Certainly there can be no rational reason in terms of the expected returns in playing, since a large portion is raked off from all sales. It may be the hope for a big hit, or the thrill of playing the game, but an economist looks at voluntary behavior and concludes that there is some benefit being derived, if the players had good information, and that is a big "if."

Let me focus on four aspects of lotteries as they are now being operated and see if I can separate those.

Current lotteries as we see them involve legalization, government operation, heavy marketing, and taxation. I am going to argue that they have different effects, and we don't necessarily have to have them in the proportions that we are seeing them.

By legalizing a lottery, the State does make something available that a lot of people find enjoyable, and they play, again if they have good information, and if we believe the people are the best judge of their own well-being, then we have to tip our hat in the direction that there are some benefits being derived there.

There may also be benefits if the illegal games are lessened, but I gather than there is really some debate over whether legal lotteries increase or decrease illegal activities.

But there is a potential cost. By legalizing the lottery, the State is sanctioning an activity in a way that it had not before. The law does many things, but one thing the law does, it instructs, and it is inevitably some kind of moral guide, so that there is that content in the law.

The second aspect is government operations. I gather the main reason that virtually all State lotteries are operated by the government is fear of corruption. That may be inevitable. Or it may not be.

But what it does, it gets the State government one step beyond legalization. Not only has it legalized an activity, it is operating the activity, so it confers greater sanction on the activity, and one might ask the question, if marijuana were legalized, for example, would States be as ready not only to legalize but operate and sell?

And we could go down the list of some of the activities you mentioned earlier on.

Now, States do—and my State is one—operate liquor stores, a very plain establishment, not a lot of advertising, and so it is obvious that to operate doesn't mean to do the third thing I mentioned, and that is to market, and market heavily.

They use various media, they introduce a lot of different games, and as we saw today, even among the best advertisements we have, "Come on and play," and that is an appeal to the easy way in which you can have fun. It is a special endorsement that goes beyond legalization and operation. The State is now encouraging people to play this game. Fine. But then we come to the fourth function, and that is taxation.

On an average, about 40 to 45 percent of sales are raked off for revenue. That is one of the big attractions, obviously. But if you take that rakeoff and compare it to the excise rates that we place in taxation on goods such as alcohol and tobacco. Even from North Carolina I can say that these are goods whose dangers to health and safety are well known.

These 40 to 45 percent rakeoff rates translate to excise rates, that is, the tax as a percentage of the net purchase, of 67 to 82 percent, and these rates are much higher than alcohol and tobacco rates, the Federal plus the State added together.

In public finance, we teach that we put very high so-called sumptuary rates on goods that are evil, or that we want to discourage, and we are putting a much higher rate on lotteries than these other goods.

Let me address the incidence question briefly, because that is one that has come up again and again, and let me give what I think is an unambiguous definition of "incidence" as economists use it. It is customary to define "incidence" in terms of the proportion of income being used up in taxes. In this case, it could be sales, because the tax is a proportional one.

If that average tax rate falls as income gets higher, and higher income people pay a lower average tax rate, that is regressive.

By that definition, based on five studies in scholarly journals that I have seen, lotteries are regressive, period.

We can look at participation rates, as some of the earlier witnesses have looked at, and say that a higher percentage of rich people might play, but that is not addressing the question of incidence as it is commonly defined.

I just took my calculator out and looked at the material handed in by Mr. Trahan, and just to illustrate the question of regressivity, not based on any of these earlier studies, I noted two counties in Maryland, a State I used to live in, Montgomery and Prince Georges, neighboring counties to the District of Columbia. Montgomery has a very high per capita income, and Prince Georges middling, but with a large spattering of low income and a fairly significant minority population.

Montgomery County has 21 percent of the State's income. In Lotto, which is a popular game here, it represents 11 percent of the expenditures on Lotto.

Prince Georges County has 17 percent of the income in the State, and it represents 26 percent of Lotto expenditures. That is just one illustration of what I see as a consistent finding that this is a regressive revenue source.

Let me conclude by just saying that despite what I said about regressivity, I can find no compelling reason to oppose or support a lottery, though as a citizen I might come out on another point of view. The moral question needs to be weighed against the benefits, and I do believe there are benefits.

What is difficult to reconcile, for me, is the coexistence of unusually high rates of sumptuary taxation, and heavy marketing.

If social disapproval of betting is the reason for the high tax rate, much higher than for alcohol and tobacco, it is quite difficult to justify the amount of advertising that we observe.

In fact, neither the high tax rate nor the heavy advertising need to be parts of a State lottery. One could imagine State lotteries with less of either, or both.

A lottery could be operated by informing the bettors the odds of winning, and what kind of games there are. We certainly operate liquor stores that way in States that have a monopoly on retail liquor.

A lottery could likewise be operated with lower tax rates. Now, of course, a lottery like that would not raise as much revenue, and would not be as attractive.

But, however they are operated, State lotteries have the potential of becoming a significant source of revenue. But whether the State should be willing to become a part of aggressive marketing and heavy taxation that we usually observe is difficult to support.

Senator DURENBERGER. Thank you very much.

I appreciate all this testimony a great deal, and I won't get too far into these issues, because we are running short on time. But I can't resist asking Representative Pistella to describe for us a good revenue-raising program.

John Brandl said we have a tendency always in government—and I know this is true—to extoll the benefits and ignore the costs. It would just surprise the heck out of me if the State of Pennsylvania would ever admit that its tax program was regressive—whether it was cigarette taxes or anything else—that you would just come out and say, "We have a brand new tax system that really socks it to the poor," or "really socks it to racial minorities. Aren't we great?" And I am including all politicians in this—it strikes me that we are not very likely, having gotten into this "good revenue-raising program," to ever really admit to the social cost that might be associated with it.

Now, you might be one of those unique people that would be willing to do it. But maybe you could describe for us what a good revenue-raising program is. You must have property taxes in your State, a State income tax, a sales tax, and so forth. Compared with other revenue-raising sources, tell me why this is a good revenue-raising program.

Mr. PISTELLA. I think, Senator, you have to look first of all at the criteria of determining what is a good revenue program. I think what you have to look at is, one, is the overhead. Is it something that can be very cheaply administered. I think that is one of the major criteria.

The demographics of who would be hit by this. Everyone can play over the age of 18. Table 3 of my testimony indicates that in 1981, 18- to 24-year-old players were 14.4 percent, 25- to 40-year-olds were 28.4 percent. The largest number of players were those really in the category of 35 or over.

I think, as you see, it is spread out. It does increase, but there is a spread, a spread you don't get, I think, with other methods of taxation, like a property tax, which we don't collect in Pennsylvania. That is local.

We have a corporate net income tax, which right now is 9.5 percent, our PIT, which I believe is 2.35. We have recently enacted legislation.

As far as hitting disadvantaged, I draw your attention to the second page. In 1981, 87.9 percent of those people who played were white. As far as income level goes, those under $15,000 constituted 65 percent of those people—I am sorry, I have different figures here.

The under $15,000 were 32.4 percent. Between $15,000 and $25,000, you have approximately 29.7. I think that you see a very even spread, so that you are not really hitting, at least in Pennsylvania, one particular socioeconomic group, one racial group, one age group. I think with the lottery it is spread out more.

If you do have a sales tax, which is administered in relatively the same fashion, a commission is paid, you have a, I believe, 1-percent commission in Pennsylvania for the collection of sales tax. That is something that hits someone's buying power. That is 6 cents on the dollar that they can't spend on food or necessities, either groceries or other such sundries.

I think that is one of the criteria you have to look at, the administration, and who it is going to affect, and I think with a lottery you have it spread out in Pennsylvania, because it doesn't hit one particular group.

No. 2, the administrative cost, I think, is kept low. Our Bureau of Lotteries is an adjunct of our Department of Revenue.

Senator **Durenberger**. OK.

Mr. **Brandl**. Could I take a whack at that question?

Senator **Durenberger**. Yes.

Mr. **Brandl**. I think that is a very good question, and it crystallized my own thinking as you asked, "Well, what is a good way to raise money?"

It seems to me that the leading candidates for principles to inform our raising money are progressivity and conduciveness to economic growth.

Now, on both, a lottery doesn't rank very well. There are some other principles—simplicity, ease of administration, and so forth—but the two that I would urge on you are progressivity and conduciveness to economic growth.

Whereas a lottery encourages consumption—I won't get into whether it is trivial consumption or not, this society ought rather to be encouraging saving, it ought to be encouraging R&D, we ought to be encouraging investment. A lottery doesn't do that. So I don't see it ranking very well in terms of encouraging economic growth. And we've already seen that it is regressive, not progressive.

Senator **Durenberger**. Maybe you could all react to this. Why don't we call it something else other than a tax? We around here, when we go downstairs to the Finance Committee, we don't call what we are doing taxing, but "revenue enhancement."

So maybe we could just look at this, not by comparison with other forms of taxation, but at some form of "contribution."

I don't know the history of gambling, but it seems to me that, particularly as a Catholic, unlike lots of others, we were allowed to gamble. It was the Catholic churches that ran the bingo parlors.

So everybody got into the church business. The Catholics were doing it. How did they do it? They have a 501(c)(3) tax-exempt status, as a religious organization. Churches are covered. Now, we have the church of this and the church of that, and they are into gambling as a way to raise money for religious, scientific, educational, and other charitable purposes.

Well, the latest phenomenon that I first heard about in Florida, and we have sure got it in Minnesota now, is that Indians, Native Americans, know how to run these gambling operations as well as the Catholic church does.

They are separate nations, and on reservations, and now they've started taking the reservations where the people are.

So, you go downtown in Duluth, MN, which has 100,000 people, but is terribly depressed—18 percent unemployment—looking for opportunity. Here comes an Indian reservation. They are applying to the Department of the Interior to start up an "Indian reservation" in the ground floor of a deserted department store.

What are they going to do? They are going to appeal to everyone's desire to create a little economic development by gambling. And the country is going to have to recognize that there is a change in the definition of an "Indian reservation," because wherever they want to go now with an Indian reservation, the Department of the Interior ought to let them have an Indian reservation for a week, and we can have gambling.

Now, that is coming at this issue from sort of a national level, and somebody says this is a States rights issue, and this is something the States ought to be able to do. But it looks to me like, now, the Indian reservation phenomenon suggests that maybe we ought to address it as a national problem, as well.

That is why I ended up here with two kinds of issues. One is, that maybe lottery revenue isn't tax. Maybe it is some other form of entertaining public service, and we ought not to worry about its efficency, economic or otherwise, because folks are going to gamble anyway, and we might as well let them contribute in the process. And then the second issue is whether this really isn't a national issue that we ought to be looking at in the Congress, rather than as an issue of States rights.

I guess even, say, in Utah, some people might have gambling impulses. I hate to suggest that, but it may be possible. It seems that people aren't that different from one State to the other.

Can we start with you, Professor Clotfelter?

Mr. **Clotfelter**. Well, a public finance economist might say if it looks like a tax and it walks like a tax, then it is probably something like a tax. You could call it something else, and I would say that the lottery proponents would not call the revenue a tax, but for my purposes, dividing the function into several pieces, and once you have legalized it, then the thing you are clearly doing is taxing it, and taxing it at a very high rate.

As for the criteria for a good tax, we teach in the classroom the same principles that Minnesota, fortunately, teaches. We look at equity and we look at efficiency, and efficiency might include not necessarily things that would enhance growth, but provisions that would not unnecessarily distort choices. As a member of the Finance Committee you know all about that.

As far as Federal purview over lotteries, my law and political science are lacking, but it seems to me that it might be a Federal function to examine advertising run by State lotteries, to examine whether the same principles of regulation apply to State lotteries as apply to the Publishers' Clearing House, but beyond that I think that the States must be left to their own, and all we can do from a central point of view is inform and then regulate to that extent.

Senator **DURENBERGER**. Mr. Pistella.

Mr. **PISTELLA**. I don't know if we are just going to limit it to lotteries, or if you want to split hairs and talk about all types of gambling. I know in Pennsylvania, we have horse racing, flat track racing, and we have harness racing, both of which are taxed and administered by the State of Pennsylvania.

I don't know the types of restrictions on advertising there, but it is still a form of gambling, revenue enhancement, whatever you wish to call it. Most of that money is ploughed right back into those programs to maintain that.

I think that if you are looking at a national level, I think you have to determine what is going to be a broad-based revenue enhancement program nationally, maybe some type of structure similar to what they do in Europe, I understand, with the World Cup. You have international competition for what they call football, which we refer to as soccer. Maybe you need some type of cooperative structure effort with professional sports teams on a national level.

Senator **DURENBERGER**. Oh, don't do that. It would ruin a lot of underground business in Minneapolis. [Laughter.] Maybe I just blew someone's cover.

Mr. **PISTELLA**. But maybe that is what you want to look at for a national program, and certain rights you may wish to leave up to the States. Certainly, a national lottery, I think, would undercut the programs that are currently in existence in other States, and I think there is a fear on the part of those general assemblies and those governorships to just that issue.

Senator **DURENBERGER**. John.

Mr. **BRANDL**. Well, that first question seems to rest on the assumption that there is a certain amount of gambling going on and we might as well corral it, but a good part of the testimony this morning showed that legalizing gambling expands the amount that goes on, so that suggests a different response for the first question.

On the second one, I have lived in this town at various times in the past, and I would say that nowadays when I come back here, I see there is too much government here, and so where I stand on it depends on where I sit. I now sit in St. Paul, on the issue of gambling.

Senator **Durenberger**. Well, gentlemen, thank you very much.

[The prepared statements of Messrs. Pistella (with attachments), Brandl, and Clotfelter (with attachments) follow:]

TESTIMONY

BY: FRANK J. PISTELLA

U.S. SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS

OCTOBER 3, 1984

Good morning Mr. Chairman and Members of the Subcommittee. I am Representative Frank Pistella from Pennsylvania and I'm here today to briefly describe for you some of the specifics of our State's highly successful lottery.

Pennsylvania's lottery became law on August 26, 1971 and began operations on March 7, 1972. Pennsylvania's lottery is unique in that, since its inception, profits from the lottery have been dedicated to senior citizen programs. As lottery sales and the resultant profits have increased throughout the years, the legislature has been able to increase the scope and types of senior citizen programs funded through the lottery.

The lottery was enacted in 1971 in order to provide funding for the Senior Citizens' Property Tax and Rent Rebate Act which is Pennsylvania's version of a property tax circuit breaker. When the program first began, rebates not exceeding $200 were distributed to senior citizens with incomes of up to $7,499. Over the years the program has been expanded as lottery revenues grew, and rebates of up to $500 are now available to claimants with incomes below $12,000.

In addition, this past July, Pennsylvania began a program to provide single senior citizens with incomes not exceeding $9,000 and married couples with incomes not exceeding $12,000 with a pharmaceutical assistance program. Under this program the lottery fund will pick up all but $4.00 of the cost of each prescription. Other programs funded by the lottery include free off-peak transit services for senior citizens, partial funding of nursing homes, administrative funds for the Department of Aging, and inflation dividends for senior citizens. (Inflation dividends are a graduated series of fixed payments to eligible senior citizens.)

Pennsylvania is able to provide senior citizens with this plethora of benefits because of the phenomenal growth in lottery sales. Table 1 in the attachments details the growth in lottery sales from $124.4 million in 1972-73, our first full fiscal year of sales, to $1.24 billion in sales during the recently ended fiscal year 1983-84. As you can see by looking across the table, sales growth has been maintained through effective management of the lottery's product mix. New games are introduced periodically, and games in which participation has been waning have been dropped. Computerized games were introduced in March 1977 with the Daily Number game. During last fiscal year, over 80% of ticket sales were generated by the three computerized games now offered by the lottery.

The growth record of the Pennsylvania Lottery indicates the high level of support and confidence it enjoys among the citizens of Pennsylvania. This, inspite of one incident several years ago in which the drawing of a daily number was found to have been fixed. This incident which could have been the harbinger of doom for

Pennsylvania's Lottery Program was completely overcome and serves us now as an unpleasant reminder of the need for constant vigilance. The prior and continued good management of our lottery program, the high level of support it receives from our citizens, and the support of senior citizens who depend on programs funded by the lottery are responsible for our ability to put this incident behind us.

During the early years of the lotteries operation, the cash accounting system used by the State resulted in a timing mismatch between lottery income and expenditures. Lottery expenditures were lumped at the beginning of the fiscal year when property tax and rent rebate check were mailed to senior citizens to reinburse them for their prior property tax or rent expenses. Lottery revenue, on the other hand, flowed in fairly constantly throughout the year. As a result, the lottery had to end each fiscal year with a substantial surplus which was destined to be drawn down rapidly within the first month of the ensuing fiscal year. This situation made year end lottery financial statements nearly meaningless as a planning tool. In an effort to address this situation, the legislature annually passed a bill authorizing the Lottery Fund to anticipate its revenues for the forthcoming fiscal year in order to accommodate its early expenditure schedule. During this time the lottery borrowed from the General Fund against its anticipatd revenues for cash flow purposes, returning the loans by the end of the fiscal year. As lottery revenues grew, and program costs stabilized, Lottery Fund accounting was changed to more accurately relate income and expenditures. Legislation passed in 1979 requires the lottery fund to reserve 20% of each year's revenues after administrative expenses for the following fiscal year. This provides the Lottery Fund with adequate cash flow to meet its expenditure requirements. In the past several years, the tables have turned completely and the Lottery Fund now provides short term cash flow loans to the General Fund. I want to emphasize however, that both funds are accounted for separately and interfund loans are not made except for short term cash flow purposes.

Now that I've detailed our treatment of lottery revenues and the manner in which money is "put back into the system" I'd like to turn to an explanation of where our lottery dollar goes. Table 2 in the attachments illustrates lottery expenditures. Forty-nine percent, or 49 cents of each dollar, is returned to lottery players in the form of prizes. The law provides that prizes shall not be less than 40% of ticket sales. Forty-two percent of lottery fund expenditures are for senior citizen programs. The law provides that no less than 30% of ticket sale revenues must be dedicated to the Property Tax/Rent Rebate Program and the Reduced Fare Transit Service for the Elderly Program. Another 5% of lottery expenditures are in the form of commissions to lottery sales agents and banks. A network of 8,200 independent retailers are licensed as Lottery Ticket Sales Agents. Of those, 2,500 operate computer terminals selling tickets for the lotteries three on-line games. 1.5% of lottery expenditures go toward maintaining this computer system. Finally 2.5% of lottery expenditures represent the operating costs of running the lottery. This includes the total expense of the Lottery Bureau, advertising, market research and development of new games.

One of the products of the Lottery Bureau's market research is a statistical breakdown of lottery players. Table 3 in the Appendix compares lottery players in 1978 and 1981 in a variety of statistical categories. An updated survey is presently under way and we expect results early in 1985. I would be more than happy to furnish the members of the committee with the results of this survey when it is completed. One piece of information which I was asked to supply which is not included in Table 3 is lottery ticket expenditures per person per week. This statistic is not collected because we have no meaningful way of interpreting it. Our largest selling game, the Lotto Game, features a cumulating prize pot. If no one wins in the first week's drawing, that week's prize is added to the next week's prize to create a larger pot. The larger the prize pot, the higher ticket sales usually go. In addition, we run a number of different instant lottery games throughout the year. Sales of Instant Game tickets generally spike during the third or fourth week of the life of the game. The result of these features is that there is no such thing as a "typical" week in the Pennsylvania Lottery.

In conclusion, I would like to express my opinion, an opinion I feel is shared by most members of the Pennsylvania Legislature, that our lottery has been an unqualified success. The existence of the lottery has enabled us to provide an array of benefits to Pennsylvania's senior citizens which we could never have hoped to afford out of tax revenues. The ability of the Lottery Fund to address the needs of Pennsylvania's senior citizens has relieved one part of the growing burdens on the State's General Fund. I can think of no other revenue raising program we have in Pennsylvania that enjoys such universal support among the legislature, the administration, the citizens of the Commonwealth and the business community alike.

In closing I would like to mention that the National Conference of State Legislatures is presently doing a study on state tax policies to assist senior citizens. Pennsylvania's lottery program will be used as a case study in this project. The final report is expected in the spring of next year and will be made available to this committee as soon as it's published.

If you have any questions now, I'd be happy to answer them.

TABLE 1

PA LOTTERY SALES REVENUES ($000)

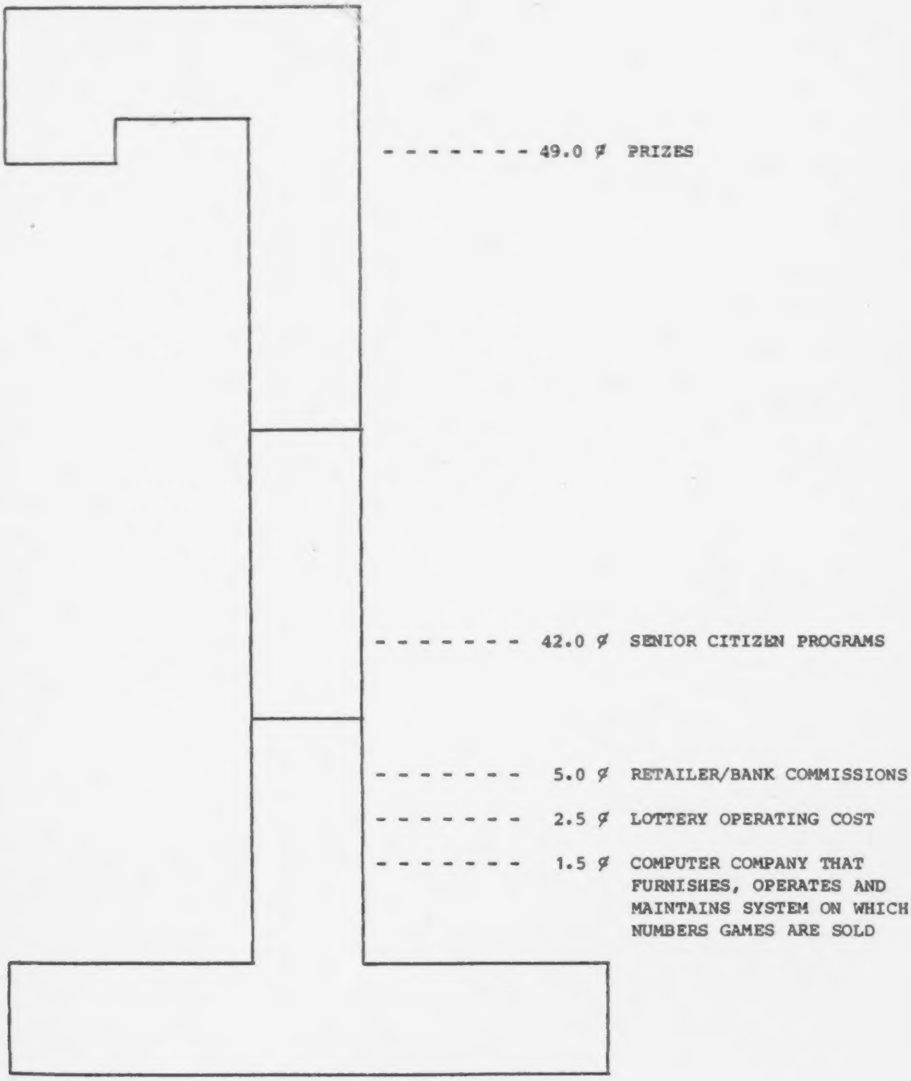
	72-73*	73-74	74-75	75-76	76-77	77-78	78-79	79-80	80-81	81-82	82-83	83-84
50¢ Lottery	$88,145	58,292	47,486	34,084	38,559	26,068	21,345	18,176	14,999	11,371	(3,813)	--
$1.00 Lottery	36,276	70,174	54,578	34,907	17,333	14,699	14,014	8,894	5,544	4,110	--	--
Instant Games			13,546	67,913	47,336	62,006	64,015	72,369	64,049	96,342	183,450	198,893
$5.00 Sweepstakes					5,593	5,048	4,525	--	--	--	--	--
Daily Number					42,882	187,634	247,520	287,962	318,902	386,499	453,090	480,911
Big 4 Game									23,519	51,699	63,957	68,237
Lotto										12,233	184,914	487,983
TOTAL	124,421	128,466	115,610	136,904	151,703	295,455	351,419	387,401	427,012	562,256	885,407	1,236,023

* First full fiscal year

TABLE 2

COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA STATE LOTTERY

WHERE DOES THE LOTTERY DOLLAR GO?
(FISCAL YEAR 1983-1984)



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June 30, 1984

TABLE 3 - page 1

PENNSYLVANIA LOTTERY STUDY

JULY 1981

Comparisons of 1978 & 1981

		1981 Total (1009)	1978
	SEX		
	Male	43.6%	47%
	Female	56.4	53
(Q.56)	AGE		
	18-24	14.4%	17%
	25-34	28.4	19
	35-54	31.8	30
	55 or older	24.3	35
(Q.55)	EDUCATION		
	Less than h.s. comp.	18.7%	29%
	High school complete	48.4	43
	Some college	13.7	28
	College complete	13.0	
	Postgraduate work	5.8	
(Q.57)	MARITAL STATUS		
	Married	60.8%	NR
	Single, never married	21.0	
	Separated/divorced	8.3	
	Widow	9.5	
(Q.58)	NUMBER IN HOUSEHOLD		
	One	15.3%	NR
	Two	27.5	
	Three	20.2	
	Four	20.9	
	Five or more	15.5	
(Q.59)	EMPLOYMENT STATUS OR RESPONDENT		
	Full time	51.6%	47% Employed
	Part time	10.4	53 Not employed
	Don't work	7.7	
	Can't get work	3.8	
	Retired	12.2	
	Homemaker	13.9	
(Q.61)	OCCUPATION OF HEAD OF HOUSEHOLD		
	Professional/manager	18.5%	NR
	White collar	17.5	
	Blue collar	39.3	
	Student/homemaker/ unemployed	5.7	
	Retired	16.3	

PENNSYLVANIA LOTTERY STUDY
JULY 1981

TABLE 3 - page 2
I-6

Comparisons of 1978 & 1981

	1981 Total (1009)	1978
(Q.62) INCOME		
Under $10,000	16.4%	65%
$10,000- $15,000	16.0	
$15,000- $20,000	15.6	26
$20,000- $25,000	14.1	
$25,000- $30,000	9.6	8
$30,000 or more	15.3	
Refused	13.1	
(Q.63) RACE		
White	87.9%	92%
Black	8.9	8
Spanish American/ Oriental/Other	1.4	
CITY		
Pittsburgh	21.1%	NR
Philadelphia	35.2	
Other	40.8	
CLUSTER GROUPS		
Group 1	12.7%	NR
Group 2	20.9	
Group 3	13.8	
Group 4	15.9	
Group 5	20.6	
Group 6	16.2	

TABLE 3 - page 3

PENNSYLVANIA LOTTERY STUDY
JULY 1981

Comparisons of 1978 & 1981

	1981	1978
(Q. 7) FAVORITE GAME	(571)	
Any On-Line		
Daily Number	41.6%	37%
Big 4	2.5	
Any Weekly		
23 for $1	1.8	
Big 50	4.4	15
Any Instant		
Fortune Wheel	0.5	
Lucky 7's	15.2	
Pennsylvania Football	1.9	
Pennsylvania Jackpot	0.3	
Three-of-a-Kind	2.7	
Instant (Nonspecific)	3.6	
Other	1.7	
None	15.5	
Don't know	4.7	
(Q.12) YEARS PLAYING LOTTERY	(550)	
One year or less	20.2%	23%
Two years	18.3	15
Three years	15.8	9
Four years	9.3	4
Five years	8.0	49
Six years	3.1	
Seven years	1.5	
Eight or more years	9.5	
Average	3.3	3.4
(Q.15) WHERE PURCHASE TICKETS	(451)	
Near home	49.2%	61%
Near work	20.3	17
Near commuter stop	4.3	2
On shopping trip	24.4	24
Someplace else	4.4	1
(Q.17) KIND OF OUTLET PURCHASE TICKETS		
Supermarket	19.7%	36%
Small food store	20.8	16
Convenience store	5.9	8
Drug store	13.8	8
Newsstand	17.0	11
Variety store	4.9	1
Beer distributor	3.6	1
Restaurant/bar	7.4	2
State store	1.5	NR
Other	3.0	NR
Other retail	9.5	NR

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF REVENUE
PENNSYLVANIA STATE LOTTERY
STATEMENT OF INCOME AND EXPENDITURES
FOR THE FISCAL YEAR ENDING JUNE 30, 1984

			% OF GROSS INCOME
E:			
Lottery Sales*	$1,236,023,313		
Miscellaneous Income	2,086		
Interest Income	____________ (1)		
Gross Income		$1,236,025,399	100.00
ESS:			
Retailers Commission	$ 64,551,673		
Vendor Commission	18,250,325		
Bank Commission	378,099		
Reserve for Prizes	607,070,694		
		$690,250,791	55.84
Gross Commonwealth Revenue		$545,774,608	44.16
ESS BUREAU EXPENDITURES AND ENCUMBRANCES:			
Total Expenditures and Encumbrances	$ 31,001,969		
Less Augmentations	1,084,920		
Total Bureau Operational Expenses		$ 29,917,049	2.42
REVENUE FROM CURRENT OPERATIONS		$515,857,559	41.74
djustments for Prior Years Income and Expenses		396,021 (2)	
Net Revenue After Adjustments		$516,253,580	
LOTTERY SALES BREAKDOWN:			
Instant Lottery Sales		$198,892,813	
Daily Number Sales		480,910,659	
Big 4 Sales		68,237,069	
Lotto Sales		487,982,772	
Total Sales		$1,236,023,313	

OOTNOTES:

1) Interest Income from Investments of $27,205,076 is not included above.

2) Prior Years Adjustments:

Overstatement of Operational Expenses	$ 636,335
Restitution of Daily Number Prize Money Paid for April 24, 1980	6,605
Uncollectable Accounts	< 188,441>
Overstated Bank Commission	9,239
Understated Retailer Commission	< 23,941>
Overstated Instant Lottery Sales	< 198,176>
Overstated Reserve for Prizes	154,400
TOTAL NET ADJUSTMENT	$ 396,021

*) The transfer of $13,898,593 from the Lottery Fund to the General Fund is not included above. As provided by Act #29 of July 21, 1983, this amount is "equal to the product of the present value of prizes of the Pennsylvania State Lottery won times the rate of tax provided in Section 302".

Public
Gaming
Magazine

Marketing Research: An Absolute Necessity Demanding Absolute Care

By Robert G. Genello and Edward Mahlman

Robert G. Genello is director and senior vice-president, International Lottery Marketing Division of Lavin, Gilman & Kyser, Inc.; a Foote, Cone & Belding Communications Company.

Edward Mahlman is assistant director and vice-president of the International Lottery Marketing Division.

Established in April, 1983, the Division provides marketing consultative services. Its objective is to meet the increasingly sophisticated needs of the diversified lottery industry, and its personnel have recently expanded their activities to include service to non-lottery segments of the emerging gaming industry.

Market research is critical if a lottery hopes to spend its advertising dollars and promotional efforts in the right areas and on the proper market segments. It is critical to analyze surveys carefully to avoid drawing incorrect conclusions and missing out on markets ripe for expansion.

In previous articles or interviews, we of the International Lottery Marketing Division of LG&K have stressed the importance of comprehensive segmentation studies as a tool in developing efficient revenue-generating marketing plans. In this article, we'd like briefly to discuss two points which have come up recently in discussions of segmentation research with the heads of U.S. and Canadian lotteries. These points were also made during our keynote marketing address in May at the annual NASL convention in Colorado Springs, Colorado.

Information Transferability

The first point concerns the transferability of information.

With all of the time, financial investment and analyses required to complete a marketing segmentation study, it is understandable that the question would arise: can the results of one study in a given state or province be transferred to another region?

Such a question is very understandable when you consider that many of the results of such studies are similar. For example, in virtually every segmentation study we find that general attitudes toward prize levels and odds are the same. In addition, there is always the presence of heavy, light and non-player segments, as well as a number of individuals who are opposed to lottery play on moral grounds.

But relying too heavily on "transferred" information can be quite risky because most results—especially those that make the most impact on marketing strategy—are quite different. Those items that are always quite different include:

- specific consumer attitudes;
- the size and distribution of heavy, light and non-player segments; and
- the number and make-up of attitudinal segments.

Figure 1 illustrates the risk in making such comparisons from one state to another.

The chart shows a comparison of segments which appear to be strikingly similar. Both were derived from the initial segmentation studies which we supervised in Pennsylvania and Colorado. In both states we discovered a segment made up of individuals who were extremely knowledgeable about gambling activities. In Colorado, we called them "Gaming Dedicated;" in Pennsylvania we called them "Serious Gamblers." In both states this segment comprised 13 percent of the population and was made up largely of males, 18-34 years old, of relatively high incomes. This segment in each state enjoyed wagering with friends and playing cards with money stakes.

Figure 1

	Colorado "Gaming Dedicated" (13% of population)	Pennsylvania "Serious Gamblers" (13% of population)
18-34	62% (40%)	65% (36%)
Male	58% (49%)	80% (47%)
$25,000-34,999	30% (19%)	33% (16%)
Card Games	41% (24%)	51% (17%)
Wagering with friends	33% (19%)	38% (10%)
LOTTERY PLAYERS	96% (66%)	31% (36%)

Figures in parentheses are for each study as a whole

A crucial distinction was evident when we saw that, without further study, one would deduce that these segments were identical and that attitudinal information about them was interchangeable.

In Pennsylvania, only 31 percent of this group were lottery players, while in Colorado virtually everyone in this group (96 percent) played the lottery.

At the time of the study, this segment in Pennsylvania was not a principal marketing target, while in Colorado, by its sheer preponderance of players, this segment must be a principal target.

Clearly, for all the many similarities between these two groups, only a careful analysis could reveal the differences which, in turn, called for a radically different marketing approach.

References Within a Study

Care must also be applied in making references within the same study, our second point of caution in this article.

For example, looking again at the Colorado study, one predictably finds a segment opposed to lotteries on moral grounds. In Colorado, top-line demographic analysis of this group revealed it to be largely female, Protestant and well-educated.

Besides its moral opposition to lotteries, this segment:

- shows little or no interest in playing;
- does not consider the good cause (parks and recreation) of the Colorado Lottery to be important;
- is quite concerned about becoming addicted to lottery play; and
- comprised 18 percent of the population yet only 1 percent of sales.

Looking only at these data, a marketing director might logically deduce that persons, especially women, from upper socio-economic neighborhoods not only do not represent a good market for lottery games, but furthermore, are hostile to the institution of the Lottery.

This deduction—which could significantly affect the allocation of funds, advertising media and executions—seems correct until one looks further in the data and observes that these same demographics (largely female, Protestant and well-educated) also describe a segment called "Lottery Supporter" (see Figure 2). This segment:

- expresses great trust in the Colorado Lottery;
- considers the good cause to be important;
- understands how to play lottery games;
- is enthusiastic about the lottery;
- is not concerned about addiction to lottery play; and
- represents 9 percent of the population and 14 percent of sales.

With this added analysis, very different—and now accurate—marketing decisions could be made.

Another example of similar data seeming to indicate one thing, but in fact proving to indicate something quite different, involved a segment of the first Pennsylvania study called the "Uninvolved." This segment was 60 percent Protestant, 25-44 years of age, with up-scale income.

Again—the religiosity of this segment would appear to be a barrier based upon other attitudinal information indicating negative attitudes toward gambling by Protestants. However, further examination of the Pennsylvania segmentation study indicated

Figure 2

Demographics: Female, Protestant, Well-Educated

"Morally Opposed"	"Lottery Supporter"
Morally opposed to lottery	Trust the lottery
No playing interest	Good cause is important
Good cause not important	Understand how to play
Concerned about addiction to lottery	Enthusiastic about lottery
18% of population: 1% of sales	Not concerned about lottery addiction
	9% of population: 14% of sales

Continued on page 42

Marketing

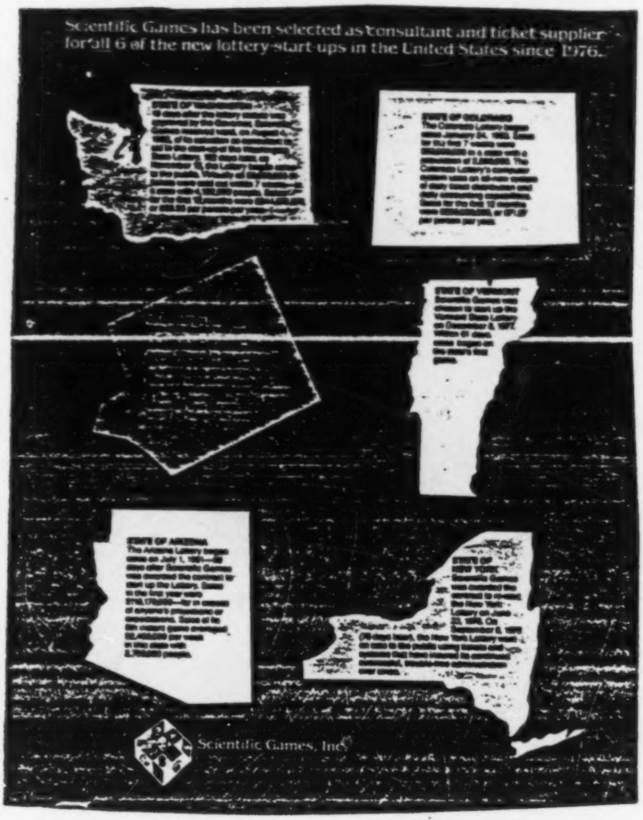
Continued from page 36

they were relatively passive on their approval of public gaming.

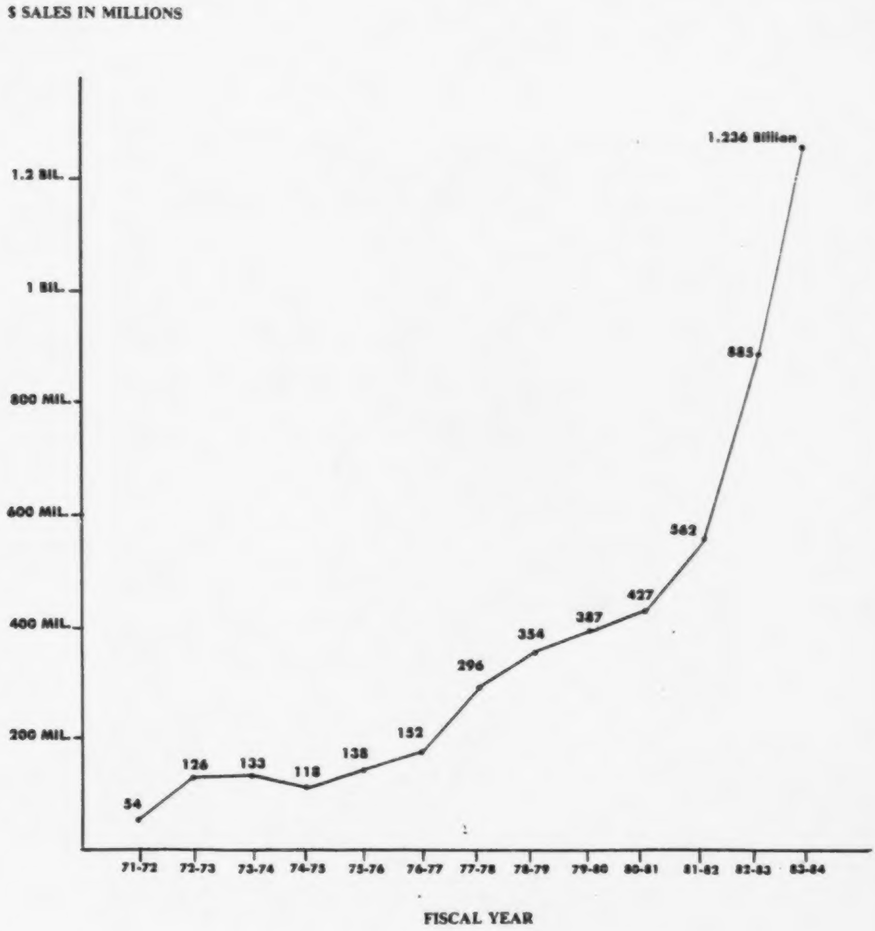
The study indicated that they were not negative about gambling activities, but rather, "reflected a lack of interest or concern." The study further noted, "this segment is one of the least religious of the eight segments." Obviously capturing the interest or concern of the individuals in this segment proved to be a major factor in capturing them as players.

Clearly, all of the above information points to the extreme importance of analyzing all relevant data in the study, as well as other existent data, before making sweeping hypotheses about playing habits, attitudes, segments, etc.

In conclusion, it has been our experience that market segmentation studies are of tremendous value in meeting the challenge of marketing lotteries today. But, just as a little knowledge can be a dangerous thing, so too must care be taken to utilize the information in these studies comprehensively and not make comparisons between or within studies without exercising caution.

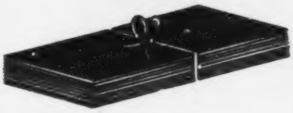
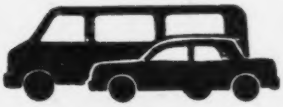

Scientific Games has been selected as consultant and ticket supplier for all 6 of the new lottery start-ups in the United States since 1976.
STATE OF COLORADO
STATE OF VERMONT
STATE OF ARIZONA
STATE OF NEW YORK
Scientific Games, Inc.

Pennsylvania Lottery Sales History in Millions of $



Profit Distribution
Total to Senior Citizens

(Actual 1971 thru June 1984)

	PROPERTY TAX/ RENT REBATE	$845 MILLION
	INFLATION DIVIDENDS	$195 MILLION
	NURSING HOME/ MEDICAL ASST.	$100 MILLION
	TRANSIT/ TRANSPORTATION	$262 MILLION
	COUNTY AGING PROGRAMS	$58 MILLION
		$1.46 BILLION

*Actual cash paid out rounded to nearest Million $

**Pharmaceutical Assistance Contract for the Elderly (PACE) Began July 1, 1984

HISTORY OF THE PENNSYLVANIA LOTTERY

The Pennsylvania Lottery was established by the State Legislature in 1971 with two intentions — to provide property tax relief for the elderly and to curb illegal gambling operations in the Commonwealth. Since the introduction of lottery games in 1972, program benefits funded by the Pennsylvania Lottery have expanded to also include rent rebates, inflation dividends, free or reduced fare transit for senior citizens plus program funding through the Department of Aging. The Pennsylvania Lottery is the only state lottery which targets its proceeds exclusively to benefit senior citizens.

The Pennsylvania Lottery premiered on March 7, 1972, with a 50¢ ticket featuring weekly drawings and a grand prize of $1 million. The overwhelming popularity of the Pennsylvania Lottery created four million dollar winners in just the first six months alone. More impressive, though, was the $57.5 million in net revenue by the end of the first fiscal year — $27.5 million more than the $30 million originally predicted.

By mid 1973, the Pennsylvania Lottery expanded to three weekly games with the addition of Lucky 7 and Winner's Choice, both with tickets priced at $1. Two years later, in the spring of 1975, the Lottery introduced the first instant game. Normally running from four to five games a year, the instant game offers Lottery players variety and the excitement of winning immediately. Rather than wait for a drawing, the instant game player learns instantly whether he or she is a winner by removing the rub-off spots which reveal the prize amount won.

The instant game also features a grand prize drawing offering $1,000-A-Week-For-Life, with $1 million guaranteed. A 20-year-old winner could collect more than $2.5 million simply by living to the grand old age of 70.

The exception in the instant games were the "Sweepstakes" Instant Lotteries. In 1980 and 1981, grand prize finalists had the opportunity to win $500,000, the largest lump sum ever offered by the Lottery. Winners were determined by the post positions of the winning horses in a special race conducted at Penn National Race Course, northeast of Harrisburg.

The most popular game of the Pennsylvania Lottery is The Daily Number. Introduced on March 1, 1977, it permits players to select their own three-digit numbers and learn quickly whether or not they are winners through the live televised drawing of The Daily Number, conducted six nights a week.

The three-digit Daily Number was joined in November, 1980, by a four-digit game called Big 4. Originally featuring one live drawing per week, Big 4 expanded in February, 1981, to two live drawings each week, held immediately after The Daily Number drawings on Wednesday and Saturday evenings. In April, 1982, the Pennsylvania Lottery terminated the pre-printed weekly games and replaced them with a new on-line game called Pennsylvania Lotto. Lotto offers players large jackpot prizes for matching the six (6) winning numbers selected every Tuesday and Friday evening immediately following The Daily Number drawing. These three games are known as the Numbers Games of the Pennsylvania Lottery.

Today the Pennsylvania Lottery players may choose from four different games — from the Numbers Games and the current instant game. The Pennsylvania Lottery has seen many changes, and in future years will likely see many more with new games being planned in the future. As its history demonstrates, the Pennsylvania Lottery will continue to evolve and offer Lottery players a variety of exciting games as well as the chance to win a million or more.

PRS:75

The PRESIDING OFFICER. The resolutions will be placed on the Calendar.

BILLS ON FIRST CONSIDERATION

Mr. LAMB. Mr. President, I move that the Senate do now proceed to consideration of all bills reported from Committees for the first time at today's Session.

Mr. STROUP. Mr. President, I second the motion.

The motion was agreed to.

The bills were as follows:

SB 247, 509 and HB 580.

And said bills having been considered for the first time,

Ordered, To be laid aside for second consideration.

PETITIONS AND REMONSTRANCES

Mr. MAZZEI. Mr. President, with reference to the bill which I and several of my colleagues introduced today, I would like to make the following remarks:

Mr. President, the time is ripe for a State lottery in Pennsylvania. For many months now, and, particularly during the recent debate on the State Income Tax, most Members of the Legislature have received mail asking them to consider every possible means of raising revenue which would be less burdensome than consumer, property, and wage taxes. Many people called upon Legislators to utilize a lottery as a means of raising revenue.

Millions of dollars are now being spent by Pennsylvanians to purchase lottery tickets from other States. A recent Associated Press story estimated that as much as $30,000,000 may be spent by Pennsylvanians in New York and New Jersey lotteries. This revenue could be used in Pennsylvania for a worthwhile public program.

We believe the lottery bill we propose represents the most comprehensive, thorough, and yet flexible draft of legislation for governing the conduct of a State lottery which has come before any Session of the General Assembly. It is the result of many weeks of research into the history, the law and the operation of existing lotteries in New York, New Jersey, New Hampshire, and even some consideration of several foreign lotteries.

Mr. President, we met and conferred, at length, with the directors of the New York and New Jersey lotteries. They were co-operative and generous with their time, and very willing to advise us on their experiences so that we might profit from that experience. The legislation we have drafted is designed to do that.

The establishment of a State lottery in Pennsylvania represents a venture into new and largely untried ground. While experiences with State lotteries elsewhere have aided us in learning how to operate a successful lottery, many uncertainties remain. The legislation we propose attempts to take advantage of the information now available, and avoids unnecessarily tying the hands of those who will run the lottery. This would be harmful to the successful and businesslike operation of the lottery, and, therefore, would not be in the best interests of the citizens of this State and, particularly, of the elderly citizens we propose to help.

Our goals are twofold: First, to provide maximum revenues which can be derived from the businesslike and imaginative operation of a lottery; and, second, to curtail, to some extent, illegal gambling operations in Pennsylvania by giving those so inclined, an alternative to playing the numbers, or participating in other forms of illegal gambling.

Estimates of the revenue potential of a State lottery in Pennsylvania are, at best, guesstimates. Much depends upon the type of lottery system established. The attractiveness of prizes, the promotion and the advertising of the lottery, the price of tickets, and the number of drawings appear to be key factors in determining public interest in purchasing tickets.

New York's experience over three full years of operation was disappointing. When they liberalized their procedures and increased their prizes this past fiscal year, their sales increased, and, just recently, they announced gross revenues of approximately $70,000,000.

New Jersey's pattern of weekly sales, with the exception of one low week, has been approximately 4,000,000 to 5,000,000 tickets each week, with a high of 6,000,000 tickets during the week of our visit. At [illegible] cents a ticket, that is $2,000,000 to $3,000,000 gross a week, which would provide yearly gross revenues of over $100,000,000, if sales remained at that level. Without a doubt, at this point, the New Jersey lottery can be termed a qualified success.

Mr. President, it would be a mistake to overestimate Pennsylvania's revenue potential through lottery sales. Inflated estimates, which would fail to materialize, would disappoint the public, undermine public support, and thereby jeopardize the lottery's chances for success. Since we cannot be sure how successful sales will be, the best we can do is to assume that $30,000,000 to $50,000,000 net can be reasonably hoped for, using the State of New York's sales picture, which is based on a larger population, with a gambling tradition, but which is handicapped by an inflexible lottery law. With a smaller population, but, hopefully, with a more interesting and flexible lottery system, we should be able to match their range of sales. We would consider this our cautious estimate.

If we are able to promote and run a lottery patterned after New Jersey, and, perhaps, surpass New Jersey in promotion, prizes and operating efficiency, we might achieve a much larger gross annual revenue.

Regardless of the amount of revenue actually realized, we feel the effort to tap this additional source should be made in the public interest. Since the lottery operation is to be self-sustaining, we would be creating no additional monetary burden on the operation of State Government. Regardless of the net revenue, in view of the increasing need for funds to meet public demands, we feel that this potential revenue source should not be overlooked.

Mr. President, we have prepared a more detailed analysis of this bill which will be distributed to each Member of the Senate for their consideration.

I would like to take a minute to explain our reasons for earmarking lottery revenue for property tax relief for the elderly.

The merit of giving property tax relief to certain elderly citizens would hardly be challenged. The [illegible] of using lottery revenues for this purpose can be further justified. There is ample evidence in the conduct of existing lotteries and professional polls on the subject to indicate that there is a definite desire on the part of a significant segment of the public to have funds from public lotteries earmarked for some specific and worthwhile public purpose. Public opinion surveys in New

York and New Jersey reveal that twenty to thirty percent of those who purchase State lottery tickets indicated that their decision to do so was based, at least in part, on their approval of the use to which the funds were to be put. No doubt many more who are not primarily motivated by that concern, or, perhaps, will not ever purchase a ticket, are more likely to accept the State lottery because the money raised is going to a popular and worthwhile public cause.

Furthermore, Mr. President, money simply lumped in a General Fund of several billion dollars is very easily lost sight of, particularly in the opinion of the general public. This lack of visibility is bound to encourage criticism about the spending of the money, and, perhaps, even about the integrity of the lottery. A separate fund for a specific purpose is readily understandable and will minimize criticism and charges of illicit use or unwise spending. Lottery promotion is made easier if the use of the funds is well-known and represents a popular cause.

Mr. President, we have only begun to meet our responsibility to improve the quality of life for the elderly. Hopefully, by earmarking lottery funds for the tax relief program, which is now a State obligation, we will relieve some pressure on General Fund obligations and, thereby, have some additional General Fund money available for programs to assist the elderly.

This bill, if enacted, and properly implemented and promoted, should provide an additional source of State revenue in a less burdensome manner than is traditionally available to taxing authorities and serve a worthwhile public purpose at the same time.

I hope the Senators will give it their support.

Mr. DONOLOW. Mr. President, yesterday, the Appropriations Committee reported out what we consider to be one of the most important pieces of legislation this Session. I am referring to Senate Bill No. 441, which is a revenue-sharing bill between the various municipalities, cities, and boroughs in Pennsylvania, and the Commonwealth. This will mean a return to the much needed and financially plighted cities and other communities in Pennsylvania in the amount of $73,000,000.

At the meeting of the Appropriations Committee yesterday, it was agreed that we would hold public hearings on this proposed legislation so that the various mayors and other heads of municipalities and boroughs throughout Pennsylvania would have an opportunity to come forward and give us their views, both for, or possibly, against this legislation.

Therefore, Mr. President, I have set up Wednesday, May 5th, at 2 p.m. for the initial hearing on this piece of legislation. We will continue all day on Thursday, May 6th.

Mr. BELL. Mr. President, I listened with great interest to the very able presentation by Senator Mazzei with respect to a proposed State lottery.

However, what Senator Mazzei did not clearly bring out was that during the recess, he and other Legislators —primarily, Senator Mazzei—worked hard by visiting other State Capitols. He has produced a bill, after very capable and thorough research. I am now very anxiously waiting for the State Government Committee to report this bill to the floor.

I do not know how I will vote on the bill. However, I do think it is time that we, in Pennsylvania, face the issue of a State lottery. I want to commend Senator Mazzei for doing very thorough preparatory work on this bill.

The PRESIDING OFFICER. The Chair noticed that neither Senator Mazzei nor Senator Bell told us what the odds for passage were.

Mr. STROUP. Mr. President and Members of the Senate, yesterday, I spoke briefly and commented upon certain provisions that I found in a very factual and evidentially written book which, I believed, was sent to most of the Members of this Body. Now, I find, that that is not quite true. I think its analysis is so viable that I have requested the publisher to provide copies for every Member of the Senate.

Mr. President, just for your information, this little booklet does something which I think is highly significant to all of us.

When you think of the United States' debt of $350 billion—and that is not the funded debt which goes into trillions of dollars—it is an absolutely incomprehensible figure. It is very easy for me to think quickly of seventeen cows or 170 cows in a pasture. However, when we talk of 17,000,000 cows, I have a lot of trouble trying to envisage that.

The same thing is true with what is happening in our Nation. We are getting to the place where figures are so large and of such giant size that it is beyond the ordinary comprehension of the layman, or, even, the specialist in the fields. We are getting to the place, even in our own Commonwealth now, where, if you try to figure out just how much is $3.8 billion of a possible budget, you cannot quite realize just how much money that is.

If you break it down, therefore, in accordance with Professor Edward R. Dewey, who formerly taught at the University of Pittsburgh, and the man who picked up his statistics and analyses, Mr. Og Mandino, the author of this particular statistical study, and divide everything by 100,000, you would get it down to someplace where you could begin to understand it.

Mr. President, I am going to ask that copies of this book be sent to all the Members of the Senate. However, I would like the privilege, and your indulgence, to read just from the Epilogue, so that you may have some idea what the book has to say at the conclusion. It is very brief and reads as follows:

"In the final analysis, of course, reducing our country on a scale of 100,000 to 1 may not be enough to correct your perspective.

"Perhaps everything should be reduced on a scale of 205.000,000 to 1 so that there is no one but you, alone, sitting on your 11-acre island"—that is the continental United States—"and contemplating the life you have made for yourself.

"You have ravaged a great part of your small island. The junk and the litter which you have scattered on its face will not take root and sprout to replace the trees you have torn from the soil. The brook, the pond, and the water surrounding the island have become little more than cesspools of your making.

"And you are alone because you deserve to be alone.

"You forgot that all your possessions were only loaned to you. You misused the land and its fruits, the air and its soft breezes, the water and its life-giving sweetness. Worst of all, you misused and mistreated nature's greatest miracle, human life.

"You were once a citizen of a proud and ambitious nation.

"You, and your forefathers, have built the greatest country in the history of the world. At Menlo Park you harnessed electricity and brightened the world; at Kitty Hawk you conquered gravity and made us all neighbors; from Cape Kennedy you walked on the moon; at Pittsburgh you conquered paralytic polio.

"You have produced Lincolns, Jeffersons, Faulkners and Sandburgs. You have sheltered an Einstein, a Von Braun, a Fermi.

"You have split the atom, thrown your voice across the ocean, built the Golden Gate Bridge and Marina Towers.

"Why, then, do you beat your breast and turn away from the challenges of this day? Are today's wars so much more horrifying than your war between the states?" —and I would call your attention to the murals in this hall—"Is today's battle against the pollution of your environment any more fearsome than the early settlers' struggle for sheer survival?

"You are living in the most exciting times ever known to man, and you have it within your power to make it the best of times—"—and here he quotes from the Tale of Two Cities—"'the spring of hope,' rather than 'the winter of despair.'

"Perhaps the secret that will help you, and all of us, to lift our heads high, once more,"—in this, I think, he is referring to the students in our colleges—"lies in a four-letter word: 'love.' Sometime in the past two decades we forgot how to love our God,"—and I think we might take that very seriously—"our island,"—and that is the United States of America—"our environment, our neighbors, and ourselves—and the fruit of our forgetfulness is now being harvested by all our children."

By this method of perspectiveness and reduction in numbers that we can understand, perhaps we can gain a sense of proportion and have it changed, thereby giving us all another chance.

Mr. President, I think that this is a very valuable book. I am not going to speak about it anymore. I will have copies for everyone and I think we will find it very effective in the work which we are trying to do in this hall.

Mr. LAMB. Mr. President, I would like to thank Senator Stroup for his kindness and consideration in making the book, to which he has been referring the last few days, available to the Members of the Senate.

ANNOUNCEMENT BY THE SECRETARY

The following announcement was read by the Secretary of the Senate:

SENATE OF PENNSYLVANIA

COMMITTEE MEETING

THURSDAY, APRIL 22, 1971

Eastern Standard Time	COMMITTEE	Room
10:00 A.M.	APPROPRIATIONS	Majority Caucus Room

ADJOURNMENT

Mr. LAMB. Mr. President, I move that the Senate do now adjourn until Monday, April 26, 1971, at 2:00 p.m., Eastern Daylight Saving Time.

Mr. STAUFFER. Mr. President, I second the motion.

The motion was agreed to.

The Senate adjourned at 12:27 a.m., Eastern Standard Time.

BILL ON THIRD CONSIDERATION AMENDED

SB 618 (Pr. No. 737)—Considered the third time,

On the question,
Will the Senate agree to the bill on third consideration?
Messrs. DONOLOW and CIANFRANI, by unanimous consent, offered the following amendments:

Amend Sec. 2, page 1, lines 12 and 13, by striking out "used exclusively for the purpose of providing property tax relief for the elderly." and inserting: paid to the counties and municipalities and townships of the Commonwealth.

Amend Sec. 6, page 4, by inserting between lines 1 and 2:

(9) The method of determining the counties in which the tickets or shares are sold.

Amend Sec. 6, page 4, line 2, by striking out "(9)" and inserting: (10)

Amend Sec. 6, page 4, line 5, by striking out "(10)" and inserting: (11)

Amend Sec. 6, page 4, line 9, by striking out "(11)" and inserting: (12)

Amend Sec. 6, page 4, lines 19 and 20, by striking out "property tax relief for the elderly as provided in section 12 of this act:" and inserting: payments to the counties and the municipalities and townships of the Commonwealth:

Amend Sec. 6, page 4, line 24, by striking out "(12)" and inserting: (13)

Amend Sec. 12, page 9, lines 8 to 18, by striking out "All moneys remaining after payment of" in line 8, and all of lines 9 to 18

Amend Sec. 12, page 9, lines 25 and 26, by striking out all of said lines

Amend Sec. 12, page 9, line 27, by striking out "(4)" and inserting: (3)

Amend Sec. 12, page 9, line 28, by removing the period after "act" and inserting: ; and

Amend Sec. 12, page 9, by inserting between lines 28 and 29:

(4) For payments to the counties and the municipalities and townships of the Commonwealth as hereinafter provided.

(c) On or before June 1, 1972 and annually thereafter, so much of the moneys in the State Lottery Fund not needed for clauses (1), (2), and (3) above, shall be paid to the counties in the proportion which the gross prices of the tickets or shares sold in each such county bears to the gross prices of the tickets or shares sold in all counties.

(d) On or before June 15, 1972 and annually thereafter, one-half of the moneys paid to each county shall be distributed to the cities, boroughs, incorporated towns and townships within the county in the proportion which the total tax receipts of each municipality or township within the county bears to the total tax receipts of all municipalities and townships within the county.

On the question,
Will the Senate agree to the amendments?

Mr. DONOLOW. Mr. President, the amendments to State Bill No. 618, which we have offered, provide that the moneys, instead of going into the senior citizens fund, be returned to the counties, and, in return, to the political subdivisions in proportion to the amount of contributions received from such municipalities. For instance, and to give you an illustration: If $2,000,000 of tickets is sold in Allegheny County, that county will receive its proportion of $2,000,000 after the whole fund is returned to the county. If the county receives, say, a quarter of a million dollars back, it will then get that quarter of a million and divide it up with the political subdivisions within the county—that is, the second fifty per cent—as to the amount that those various subdivisions contribute to the fund.

This money will be used by the counties and the political subdivisions for the purpose of operating State Government.

Mr. President, last Wednesday, we sat in a hearing all day and listened to officials from the various cities, boroughs, townships, and county commissioners who came to Harrisburg and told us of their plight. There is not one city, one borough or one township in Pennsylvania, today, that is not faced with financial disaster.

Mr. President, the Mayor of Pottstown, the head of the Greater Harrisburg Movement, the head of the Pennsylvania State Association of Boroughs, the head of the Pennsylvania Association of County Commissioners, the Mayor of Philadelphia, the Mayor of Pittsburgh, the Mayor of Erie, the Mayor of McKeesport, the Mayor of Lancaster, who also represented the Legislative Committee of the League of Cities, and the Mayor of Scranton, all came to Harrisburg. Mr. President, I do not believe that any Member of the Senate, who sat and listened to that testimony, could turn a deaf ear to the plight of our political subdivisions in Pennsylvania.

Our first responsibility, Mr. President, is in this direction. If the cities do not survive, if the boroughs and the political subdivisions do not survive, then we are in serious trouble in this Commonwealth.

Now, we have passed the three and one-half per cent income tax here, and other Democratic Senators and I put our political futures on the line to vote for this measure, because within the confines of the Governor's request was $60,000,000 for senior citizens. We passed this income tax to cover that situation. Mr. President, if we do not return the funds to the political subdivisions, then that aid which we are giving the senior citizens will be eaten up in higher real estate taxes and other higher personal taxes that are now not going to be imposed within the political subdivisions.

Mr. President, let me refer to a community with which I am familiar. The City of Philadelphia has a deficit of $120,000,000, as of this hour. Our school districts need $80,000,000 just to meet the budget, and that is their deficit. If we do not receive financial aid from the Commonwealth, we are going to have a disastrous situation for the people of Philadelphia. We are now paying high real estate taxes and we are being faced with high school taxes. We, in Philadelphia, come here pleading, and state that if the big city does not live and if you do not give us an opportunity to survive, then the entire surrounding community that feeds from the City of Philadelphia is going to be affected.

Now, Mr. President, there is not a person in this Chamber who does not believe in help for the senior citizens. We are delighted with that and we agreed on that. Those who offered this bill say that if we get the money out of lotteries, it will reduce the budget. Mr. President, I have been here many years, and I have yet to see any man stand up on the floor and vote for the reduction of a giveaway program to any group. I want to see any Member who would stand on this floor and amend House Bill No. 192 to reduce the aid to senior citizens, because they are getting money from another source. It will never happen.

Mr. President, the crying need, right now, is for the big cities. If you can go back to the communities and your political subdivisions and deny them this money, and impose additional taxes instead of it, you are very brave at this time of your political career.

Mr. MAZZEI. Mr. President, we are all familiar with the complications of the school subsidy formula which attempts to return State funds to local school districts in some equitable manner. The formula is so complicated that no one understands it and no one is ever satisfied with the amount of money they receive.

It seems to me that to use a formula, such as is being proposed for lottery funds, would be a very complicated procedure and would be very difficult for the Division of the Lottery, in the Department of Revenue, to administer. The administrative overhead cost would also be increased under that proposal. It would be very controversial and would not get the money where it is needed.

In contrast, my proposal to use the money for senior citizen property tax relief is much less complicated; it serves a direct and useful purpose to a group of Pennsylvania citizens who have been sadly neglected up to this point, and it has the added advantage of getting the money back in an uncomplicated and equitable fashion.

Mr. President, there are some who feel they will not get their fair share under my proposal. However, it is my belief that just the opposite is true. The elderly who are eligible for property tax relief live in every section of the Commonwealth. I am sure, proportionately speaking, that Philadelphia has a substantial number of low-income elderly who will benefit from my lottery proposal and will benefit directly.

Mr. President, one of the important and appealing aspects of my bill which every Member of the Senate should remember is that it does earmark the funds for a very specific, popular and worthwhile purpose, and it does distribute the money with a great deal of equality, because it is based on the needs of the elderly who do live everywhere in the Commonwealth, and no complicated, controversial formula is needed to disburse the lottery revenue.

Therefore, Mr. President, I would urge my colleagues to look at the long-range implications of these alternative proposals and vote against amendments which would change the distribution formula now contained in Senate Bill No. 618.

Mr. DUFFIELD. Mr. President, we realize the plight of the cities. We realize the mandate which was given to the eight Democratic Senators from Philadelphia to get some money for Philadelphia. That is a formidable group to "buck" against.

My good friend, Senator Donolow, asked whether any Senator had the "guts" to stand up on the floor of the Senate and reduce any giveaway programs. Just a few minutes ago, there were three or four of us who stood up to reduce all the giveaway programs to Philadelphia institutions.

We talk about the "plight of the cities". Mr. President, the plight of the elderly who cannot pay their taxes, who have to eat hamburgers, while our college kids dine in fabulous dining halls and eat steak, should be considered. Of course, Senate Bill No. 618, as it stands, unamended, does not help our senior citizens. As my friend, Senator Donolow, has stated, we have already voted approximately $60,000,000 for our senior citizens. The Governor of Pennsylvania has stated that that is what it will cost out of the money derived from the income tax. By the most liberal estimated figures, a lottery would not approach $60,000,000 in the Commonwealth of Pennsylvania. I have heard figures mentioned, ranging from $20,00[illegible] to $50,000,000.

Mr. President, if Senate Bill No. 618 is passed, it is under the name of "aid to senior citizens," but it is not doing anything, at all, for them. It is a popular term used in order to pass a State lottery in Pennsylvania.

Mr. President, I think, if we are going to help [illegible] senior citizens, we should make this lottery revenue [illegible] addition to House Bill No. 192. I had hoped to offer an amendment to Senate Bill No. 618 this afternoon, but I did not have time to get it prepared in the Legislative Reference Bureau. If we think the senior citizens are getting help from House Bill No. 192, we are badly mistaken. If a senior citizen is making under $1,000 or $[illegible] a year, the answer is "yes," as such a citizen could get up to $200 toward his taxes. House Bill No. 192 is just [illegible] soft to senior citizens.

Now, what happens if the bill, itself, providing aid to senior citizens, is passed? The revenue will go into the General Fund to help make up this $60,000,000 that we have already committed ourselves to, and we are not doing a "darn" thing for senior citizens. We are merely passing a lottery bill under the guise and mistaken apprehension that it is going to help senior citizens. It is not going to help them one "darn" bit!

Therefore, Mr. President, I would like to see a bill introduced which would help the senior citizens. The lottery bill is a very controversial bill; there is no question about it. In order to give it the aura of respectability, we say that it is going to help senior citizens. This money will go into the General Fund and it will be used for other hairbrained programs, like we had here by giving Philadelphia all these millions of dollars for schools that nobody ever heard of. That is where the money will go. It will not go for senior ciitzens!

Therefore, Mr. President, I will vote against Senator Donolow's amendments to Senate Bill No. 618 and I will also vote against the bill, because I do not believe in fooling the people. Besides, it is not going to help the senior citizens.

Mr. TILGHMAN. Mr. President, I desire to interrogate the gentleman from Philadelphia, Senator Donolow.

The PRESIDENT. Will the gentleman from Philadelphia, Mr. Donolow, permit himself to be interrogated?

Mr. DONOLOW. Mr. President, if it is Senator Tilghman who wishes to interrogate me, I will agree.

Mr. TILGHMAN. Mr. President, I desire to interrogate Senator Donolow only because I am just a little unclear as to the last part of his proposed amendments to Senate Bill No. 618, concerning the formula whereby the money would go back to the counties.

Let us suppose there are 1,000 individuals in the City of Philadelphia who buy lottery tickets at two dollars or whatever they will cost. Then, let us jump out to an outlying county, such as Montgomery County. Let us suppose that one individual buys the same dollar's worth of tickets—in other words, he buys $2,000 worth. Would the formula for the money going back to those two counties be the same? An individual in one county buys that many tickets and 1,000 individuals buy tickets in Philadelphia.

Mr. DONOLOW. Mr. President, it would be the same portion of the amount that comes into the total fund as to what that $2,000 equals. In other words, if the [illegible] comes from Philadelphia, Montgomery or D[illegible] counties, it will be the same return on that $2,000 because that is in proportion to the whole fund.

For example, say the $2,000 represents .5 per cent. Well, $2,000 will be .5 per cent for Delaware, Montgomery and so forth, as the $2,000 relates to the entire fund.

Mr. TILGHMAN. Mr. President, that is what I am afraid of. That seems pretty inequitable to me. A great many residents in Philadelphia County might buy tickets; whereas, two or three wealthier residents in suburban counties might buy tickets just for themselves and those counties would get back the same amount of money, although hundreds more people in Philadelphia might have bought tickets. It does not seem to me to be too equitable.

For that reason, Mr. President, I would urge my colleagues on this side of the aisle to vote against the amendments.

And the question recurring,
Will the Senate agree to the amendments?

The yeas and nays were required by Mr. TILGHMAN, and were as follows, viz:

YEAS—10

Arlene.	Frame.	Murphy.	Smith.
Cianfrani.	Hankins.	Rovner.	Wade.
[illegible]	Hill.		

NAYS—33

Ammerman.	Fleming, R. D.	Lentz.	Reibman.
Bell.	Fleming, W. E.	Manbeck.	Sesler.
Confair.	Gerhart.	Mazzei.	Snyder.
Coppersmith.	Hawbaker.	Mellow.	Stapleton.
[illegible]	Hess.	Messinger.	Stauffer.
[illegible]	Hobbs.	Murray.	Stroup.
Duffield.	Holl.	Noszka.	Tilghman.
Dwyer.	Lamb.	Oesterling.	Wood.
Ewing.			

So the question was determined in the negative, and the amendments were defeated.

And the question recurring,
Will the Senate agree to the bill on third consideration?
Messrs. AMMERMAN and MAZZEI, by unanimous consent, offered the following amendment:

> Amend Sec. 4, page 2, lines 20 and 21, by striking out ", and until their successors are" and inserting: . No member, upon the expiration of his term, shall continue to hold office until his successor is

On the question,
Will the Senate agree to the amendment?

Mr. AMMERMAN. Mr. President, I would like to point out that the purpose of the amendment which I have offered to Senate Bill No. 618 is to provide, in actuality, a fixed term for each member of the State Lottery Commission, and to prevent the constitutionally provided power of the Senate to pass upon nominations, by confirming or not confirming them, brought about by the delay in presenting nominations for confirmation to the Senate. Therefore, Mr. President, I would ask that my colleagues support this amendment.

And the question receurring,
Will the Senate agree to the amendment?
It was agreed to.
Without objection, the bill, as amended, was passed over in its order at the request of Mr. AMMERMAN.

SECOND CONSIDERATION CALENDAR

BILL ON SECOND CONSIDERATION

SB 37 (Pr. No. 37)—Considered the second time and agreed to,
Ordered, To be transcribed for a third consideration.

BILL OVER IN ORDER

SB 38—Without objection, the bill was passed over in its order at the request of Mr. LAMB.

BILL REREFERRED

SB 39 (Pr. No. 39)—Upon motion of Mr. LAMB, seconded by Mr. OESTERLING, and agreed to, the bill was rereferred to the Committee on Appropriations.

BILL ON SECOND CONSIDERATION

HB 191 (Pr. No. 211)—Considered the second time and agreed to,
Ordered, To be transcribed for a third consideration.

BILLS OVER IN ORDER

SB 224 and **247**—Without objection, the bills were passed over in their order at the request of Mr. LAMB.

BILLS ON SECOND CONSIDERATION

SB 256 (Pr. No. 258); **SB 259** (Pr. No. 728) and **SB 284** (Pr. No. 286)—Considered the second time and agreed to,
Ordered, To be transcribed for a third consideration.

BILL OVER IN ORDER

SB 287—Without objection, the bill was passed over in its order at the request of Mr. LAMB.

BILL ON SECOND CONSIDERATION

SB 306 (Pr. No. 308)—Considered the second time and agreed to,
Ordered, To be transcribed for a third consideration.

BILLS OVER IN ORDER

SB 348, 367, 384, 386 and **398**—Without objection, the bills were passed over in their order at the request of Mr. LAMB.

BILL ON SECOND CONSIDERATION

SB 421 (Pr. No. 428)—Considered the second time and agreed to,
Ordered, To be transcribed for a third consideration.

BILL OVER IN ORDER

SB 441—Without objection, the bill was passed over in its order at the request of Mr. LAMB.

BILLS REREFERRED

SB 445 (Pr. No. 452) and **SB 486** (Pr. No. 729)—Upon motion of Mr. LAMB, seconded by Mr. MURRAY, and agreed to, the bills were rereferred to the Committee on Appropriations.

BILL OVER IN ORDER

SB 496—Without objection, the bill was passed over in its order at the request of Mr. LAMB.

constitutionality of Senate Bill No. 141 and, I am sure, the city lawyers will take this into Court.

Mr. President, I question the constitutionality of this type of tax.

And the question recurring,
Shall the bill pass finally?

The yeas and nays were taken agreeably to the provisions of the Constitution and were as follows, viz:

YEAS—39

Ammerman,
Arlene,
Cianfrani,
Coppersmith,
Davis,
Donolow,
Duffield,
Dwyer,
Fleming, R. D.
Fleming, W. E.
Frame,
Gerhart,
Hankins,
Hess,
Hill,
Hobbs,
Holl,
Howard,
Lamb,
Lentz,
Mazzei,
McCreesh,
McGlinchey,
Messinger,
Murphy,
Murray,
Nolan,
Noszka,
Oesterling,
Reibman,
Rovner,
Sesler,
Smith,
Stapleton,
Stauffer,
Stroup,
Wade,
Wood,
Zemprelli,

NAYS—8

Bell,
Confair,
Dengler,
Ewing,
Hawbaker,
Manbeck,
Snyder,
Tilghman,

A constitutional majority of all the Senators having voted "aye," the question was determined in the affirmative.

Ordered, That the Clerk present said bill to the House of Representatives for concurrence.

BILLS OVER IN ORDER

SB 346 and 347—Without objection, the bills were passed over in their order at the request of Mr. LAMB.

BILL ON THIRD CONSIDERATION AND FINAL PASSAGE

SB 357 (Pr. No. 712)—Considered the third time and agreed to,

And the amendments made thereto having been printed as required by the Constitution,

On the question,
Shall the bill pass finally?

Mr. STROUP. Mr. President, I was going to offer amendments to this bill, but I got the message that my proposed amendments to Senate Bill No. 357 would not be supported by the Members on the other side of the aisle. Therefore, I consider the matter one of futility and will not offer the amendments.

(During the calling of the roll, the following occurred:)

Mr. OESTERLING. Mr. President, I desire to change my vote from "aye" to "no".

The PRESIDENT. The gentleman will be so recorded.

Mr. CIANFRANI. Mr. President, I desire to change my vote from "aye" to "no".

The PRESIDENT. The gentleman will be so recorded.

Mr. McCREESH. Mr. President, I desire to change my vote from "no" to "aye".

The PRESIDENT. The gentleman will be so recorded.

The yeas and nays were taken agreeably to the provisions of the Constitution and were as follows, viz:

YEAS—21

Ammerman,
Arlene,
Bell,
Confair,
Donolow,
Duffield,
Dwyer,
Gerhart,
Hankins,
Mazzei,
McCreesh,
McGlinchey,
Messinger,
Murphy,
Murray,
Nolan,
Noszka,
Rovner,
Smith,
Stapleton,
Zemprelli,

NAYS—25

Cianfrani,
Coppersmith,
Davis,
Dengler,
Ewing,
Fleming, R. D.
Fleming, W. E.
Frame,
Hawbaker,
Hess,
Hill,
Hobbs,
Holl,
Howard,
Lamb,
Lentz,
Manbeck,
Oesterling,
Reibman,
Sesler,
Snyder,
Stauffer,
Stroup,
Tilghman,
Wade,

Less than a majority of all the Senators having voted "aye," the question was determined in the negative.

BILL OVER IN ORDER

SB 511—Without objection, the bill was passed over in its order at the request of Mr. LAMB.

BILL ON THIRD CONSIDERATION AND FINAL PASSAGE

SB 516 (Pr. No. 715)—Considered the third time and agreed to,

And the amendments made thereto having been printed as required by the Constitution,

On the question,
Shall the bill pass finally?

The yeas and nays were taken agreeably to the provisions of the Constitution and were as follows, viz:

YEAS—27

Ammerman,
Arlene,
Cianfrani,
Confair,
Coppersmith,
Dengler,
Donolow,
Duffield,
Dwyer,
Ewing,
Fleming, W. E.,
Frame,
Hawbaker,
Hess,
Hill,
Hobbs,
Holl,
Howard,
Lentz,
McGlinchey,
Messinger,
Reibman,
Rovner,
Sesler,
Stroup,
Tilghman,
Wood,

NAYS—20

Bell,
Davis,
Fleming, R. D.,
Gerhart,
Hankins,
Lamb,
Manbeck,
Mazzei,
McCreesh,
Murphy,
Murray,
Nolan,
Noszka,
Oesterling,
Smith,
Snyder,
Stapleton,
Stauffer,
Wade,
Zemprelli,

A constitutional majority of all the Senators having voted "aye," the question was determined in the affirmative.

Ordered, That the Clerk present said bill to the House of Representatives for concurrence.

BILL ON THIRD CONSIDERATION AMENDED

SB 618 (Pr. No. 643)—Considered the third time,

On the question,
Will the Senate agree to the bill on third consideration?

Messrs. SESLER and MAZZEI, by unanimous consent, offered the following amendments:

> Amend Sec. 7, page 5, line 6, by removing ".—" after "Agents" and inserting: ; Qualifications; Prohibitions.—(a)
>
> Amend Sec. 7, page 5, by inserting between lines 27 and 28: (b) If the secretary shall find that the experience, character and general fitness of the applicant are such that the participation of such person as a lottery sales agent will be consistent with the public interest, convenience and necessity, it may thereupon grant a license. Without limiting the generality of the foregoing,

the secretary may refuse to issue a license pursuant to this section, or may suspend or revoke a license so issued if it shall find that the applicant or licensee:

(1) Has been convicted of a crime involving moral turpitude.

(2) Has engaged in bookmaking or other form of illegal gambling.

(3) Has been found guilty of any fraud or misrepresentation in any connection.

(4) Has violated any rule, regulation or order of the secretary.

(c) The secretary may refuse to grant a license or may suspend or revoke a license issued pursuant to this section to a corporation, if it shall determine that:

(1) Any officer, director, member or stockholder of such corporation applying for a license or of any corporation which owns stock in or shares in the profits, or participates in the management of the affairs of such applicant: (i) has been convicted of a crime involving moral turpitude, (ii) has engaged in bookmaking or other forms of illegal gambling, (iii) has been found guilty of any fraud or misrepresentation in any connection, or (iv) has violated any rule, regulation or order of the secretary.

(2) The experience, character, or general fitness of any officer, director, or stockholder of any of the aforesaid corporations is such that the participation of such person as a lottery sales agent would be inconsistent with the public interest, convenience or necessity, but if the secretary determines that the interest of any stockholder referred to in this clause or in clause (1) of this subsection is sufficient, in the opinion of the secretary, to affect adversely the conduct of a lottery sales agency by such corporation in accordance with the provisions of this act, the secretary may disregard such interest in determining whether or not to grant a license to such corporation.

(3) The applicant is not the owner or the lessee of the business at which it will conduct a lottery sales agency pursuant to the license applied for, or that any person, firm, association, or corporation other than the applicant shares, or will share, in the profits of the applicant, other than by dividends as a stockholder, or participates, or will participate, in the management of the affairs of the applicant.

(d) Pending final determination of any question under this section, the secretary may issue a temporary license upon such terms and conditions as it may deem necessary, desirable or proper to effectuate the provisions of this act.

On the question,

Will the Senate agree to the amendments?

Mr. SESLER. Mr. President, the amendments which I have offered to Senate Bill No. 618, very briefly, would give to the Secretary of the Lottery Commission the power to withhold a license to operate as an agent of the Commonwealth of Pennsylvania, if the Secretary found that the applicant had been convicted of a crime, involving moral turpitude; had engaged in bookmaking or other forms of illegal gambling; had been found guilty of any fraud or misrepresentation in any connection; or had violated any rule, regulation or order of the Commission. The same type of standards would also be applied to officers of corporations who might be issued licenses to issue lottery tickets and to act as lottery sales agents.

Mr. President, I think that I have some reservations about voting for a lottery in Pennsylvania. I still feel that there are many people in Pennsylvania who oppose gambling, and would not like to see the Commonwealth engage in it. However, I do feel that the majority of people in Pennsylvania are in favor of a lottery. In view of the critical need for additional revenues, and the fact that we may be able to convert illegal gambling into a legal form of gambling, I felt that we should support Senate Bill No. 618, provided, of course, there was imposed upon it as strict a regulation as possible, to make sure that the lotteries were conducted in the highest standards and that the persons acting as sales agents for the Commonwealth would be persons who would be a credit to the Commonwealth.

Mr. President, this is similar, in a sense, to the restrictions which we have placed upon those who operate race tracks in the Commonwealth of Pennsylvania. I feel that, since it is a discretionary power, it can be imposed when necessary.

Therefore, I ask my colleagues to support these amendments to Senate Bill No. 618. I am joined in this request by the gentleman from Allegheny, Senator Mazzei, who believes that the amendments would be beneficial to the overall lottery. Senator Mazzei, as you know, is the prime sponsor of this piece of legislation.

And the question recurring,

Will the Senate agree to the amendments?

They were agreed to.

Without objection, the bill, as amended, was passed over in its order at the request of Mr. SESLER.

REPORT FROM COMMITTEE ON EXECUTIVE NOMINATIONS

Mr. GERHART, by unanimous consent, from the Committee on Executive Nominations, reported the following nomination, made by His Excellency, the Governor, which was read by the Clerk as follows:

SECRETARY OF TRANSPORTATION

April 19, 1971

To the Honorable, the Senate of the Commonwealth of
Pennsylvania:

In conformity with law, I have the honor hereby to nominate for the advice and consent of the Senate Jacob G. Kassab, 211 Linden Road, Canonsburg, Washington County, for appointment as Secretary of Transportation, to serve until the third Tuesday of January 1975, and until his successor shall have been appointed and qualified, vice Victor W. Anckaitis, Easton, whose term expired.

MILTON J. SHAPP

EXECUTIVE NOMINATIONS

EXECUTIVE SESSION

By unanimous consent, a motion was made by Mr. GERHART and Mr. MURRAY, That the Senate do now resolve itself into Executive Session for the purpose of considering certain nominations made by the Governor.

Which was agreed to.

CONSIDERATION OF EXECUTIVE NOMINATION

Mr. GERHART asked and obtained unanimous consent for immediate consideration of the nomination made by His Excellency, the Governor, and just read by the Clerk.

On the question,

Will the Senate advise and consent to the nomination?

The House proceeded to second consideration of **Senate bill No. 618, printer's No. 905,** entitled:

An Act providing for a State Lottery and administration thereof; authorizing the creation of a State Lottery Commission; prescribing its powers and duties; disposition of funds; violations and penalties therefor; exemption of prizes from State and local taxation and making an appropriation.

On the question,
Will the House agree to the bill on second consideration?

Mr. RITTER requested and obtained unanimous consent to offer the following amendments, which were read:

Amend Sec. 2, page 1, lines 12 to 14, by striking out "AFTER JUNE 30, 1972 exclusively" in line 12; all of line 13; and "elderly." in line 14, and inserting: for General Fund purposes.

Amend Sec. 4, page 2, line 21, by inserting a period after "years"

Amend Sec. 4, page 2, line 21, by striking out "No" and inserting: A

Amend Sec. 6, page 4, line 21, by striking out "for property tax relief for the elderly" and inserting: the deposit in the General Fund

Amend Sec. 12, page 9, lines 12 to 22, by striking out all of said lines and inserting: General Fund.

Amend Sec. 12, page 9, lines 29 and 30, by striking out all of said lines

Amend Sec. 12, page 10, line 1, by striking out "(4)" and inserting: (3)

Amend Sec. 12, page 10, line 1, by striking out "THROUGH JUNE 30, 1972,"

On the question,
Will the House agree to the amendments?

The SPEAKER pro tempore. The Chair recognizes the gentleman from Lehigh, Mr. Ritter.

Mr. RITTER. Mr. Speaker, the purpose of these amendments is to remove any reference to tax relief for senior citizens from Senate bill No. 618 and, instead, take the proceeds from the lottery and put them in the general fund.

I want to emphasize that I have been advocating a lottery for a long time, but I am certainly not doing anything which would indicate that I am not in favor of a lottery. What I am saying is that I do not believe you can stretch your imagination far enough to conceive of realizing $60 million for senior-citizen tax relief from a lottery. This bill would set up a separate fund which would have to be handled separately, audited separately, providing and, in fact, incurring additional expense on the part of the Commonwealth. And so, when we were all finished with that, we would go to that fund, take the money that is in there, put it to tax relief for senior citizens and have to go to the general fund and get additional revenues in order to make up the $60 million. I am saying that what we ought to do is simply put all the money in the general fund and take from that general fund the $60 million necessary for the senior-citizen tax relief.

I would ask, Mr. Speaker, for an affirmative vote. I think it is a good amendment, one which will not harm the bill at all and one which will make it a lot easier to administer the bill.

Thank you.

QUESTION OF PARLIAMENTARY INQUIRY

The SPEAKER pro tempore. The Chair recognizes the gentleman from York, Mr. Geesey. For what purpose does the gentleman rise?

Mr. GEESEY. I rise to a question of parliamentary inquiry.

The SPEAKER pro tempore. The gentleman will state it.

Mr. GEESEY. Mr. Speaker, I have an amendment which would substantially change the amendment presently under consideration on the floor of the House. Would the Chair please advise me as to what procedure I should take to have my amendment properly considered?

The SPEAKER pro tempore. The Chair understands that the gentleman seeks to amend an amendment and asks whether he should offer his amendment now or await action on the principal amendment.

The Chair wishes to advise the gentleman from York that the choice is his, but the procedure is established that if he does not offer his amendment to the amendment today and the principal amendment passes, then on proper motion, he must first have the body agree to the reconsideration of the vote by which the principal amendment passed, and, if successful, he would then be permitted to offer his amendment.

The Chair would advise the gentleman, if he has an amendment, to offer it at this time.

Mr. GEESEY. Yes, I do, Mr. Speaker.

Thank you for the explanation, and with the approval of the Chair and the members of the House, I would seek to amend the amendment.

On the question,
Will the House agree to the amendments offered by the gentleman from Lehigh, Mr. Ritter?

Mr. GEESEY requested and obtained unanimous consent to offer the following amendments to the amendments offered by the gentleman from Lehigh, Mr. Ritter, which were read:

Amend Sec. 12, page 9, line 12 by striking out "AFTER WHICH DATE THEY" and inserting: and allocated to the Pennsylvania Department of Transportation for the purpose of widening, surfacing, resurfacing and maintenance of secondary roads in such proportion as the mileage in each county relates to the total mileage in the Commonwealth, which allocation shall be in addition to any other funds appropriated or paid for the same purpose; and, after June 30, 1972, the moneys

On the question,
Will the House agree to the amendments offered by the gentleman from York, Mr. Geesey?

QUESTION OF PARLIAMENTARY INQUIRY

The SPEAKER pro tempore. The Chair recognizes the gentleman from Northumberland, Mr. Kury. For what purpose does the gentleman rise?

Mr. KURY. I rise to a question of parliamentary inquiry.

The SPEAKER pro tempore. The gentleman will state it.

Mr. KURY. Will the Chair verify that the amendment submitted by the gentleman from York is actually an amendment to Mr. Ritter's amendment or whether it is in fact an amendment to the bill, in which case it is not an amendment to an amendment.

The SPEAKER pro tempore. The amendment that has been offered to the desk now will intentionally upset the amendment that has just been offered by Mr. Ritter. Therefore, it is an amendment to his amendment.

Mr. KURY. As I read the Geesey amendment, it was an amendment to the bill. Therefore, I raise the question as to whether it can in fact be an amendment to the amendment. It must be considered separately as a separate amendment.

The SPEAKER pro tempore. The gentleman in his point has to consider the effect that the amendment will have on the amendment of the gentleman from Lehigh, Mr. Ritter. If the Ritter amendment passes, then the Geesey amendment may only be considered if we reconsider the amendment of Mr. Ritter.

The Chair recognizes the gentleman from York, Mr. Geesey.

Mr. GEESEY. Does the gentleman from Northumberland have any further points he would like to raise at this time?

The SPEAKER pro tempore. Does the gentleman care to interrogate the gentleman from Northumberland?

Mr. GEESEY. No, Mr. Speaker, I just wanted to know if he had any further parliamentary points he would care to raise at the present time.

Mr. Speaker, my amendment would do two things—it would highlight and take care of the two most critical problems facing the people of the Commonwealth today. These two problems are, namely, secondary roads and tax relief for the elderly. We all know—certainly the majority of the members in the House know—that when we go home, the biggest problems we face in terms of phone calls, in terms of time, in terms of the safety and well-being of our constituents, are the conditions of the secondary roads.

My amendment would provide that for the first year, and the first year only, all of the income from the state lottery would be given to PennDOT for the purpose of maintaining, surfacing and resurfacing secondary highways, and the money would be allocated on a mileage basis by counties as it relates to the total mileage of the system in the Commonwealth. Now this is not, by any stretch of the imagination, going to resolve all our problems with secondary highways, but it will certainly go a long way in resolving many of the problems we have.

As far as the second issue is concerned, we cannot, as members of this House, take the chance that at some point in time sufficient amounts of moneys will not be available to aid the senior citizens of this Commonwealth. We have all witnessed from time to time the various crunches that the Commonwealth has been in, the various procrastinations that we have gone through as far as paying our school subsidies, things of this nature. This is a very real problem, as far as our senior citizens are concerned.

If we take this opportunity to earmark the money now, then they will be assured that, regardless of what happens in the future, their money will be there.

Thank you, Mr. Speaker. I ask the members to favorably consider this amendment.

The SPEAKER pro tempore. The Chair recognizes the gentleman from Lehigh, Mr. Ritter, on the amendment of Mr. Geesey.

Mr. RITTER. Mr. Speaker, I am thoroughly in trouble. I am thoroughly confused.

My amendment seeks, as I said, to remove any reference in the lottery bills to tax relief for senior citizens. It therefore removes the June 30, 1972 date. But Mr. Geesey's amendment would seek to amend my amendment and put in again the words "June 30, 1972," and it would appear then in no other place except that section.

Quite frankly, I cannot understand the amendment and, if I am in order, I would ask that the House defeat Mr. Geesey's amendment to my amendment so that we can consider my amendment and then we will talk about Mr. Geesey's amendment, but I do not think that his amendment is going to clear up anything. I think it would tend to confuse the amendment that I have offered.

PARLIAMENTARY INQUIRY

The SPEAKER pro tempore. The Chair recognizes the gentleman from Cambria, Mr. Gleason. For what purpose does the gentleman rise?

Mr. GLEASON. I rise to a parliamentary inquiry.

The SPEAKER pro tempore. The gentleman will state it.

Mr. GLEASON. The Chair is aware of the fact that I have an amendment to this bill, and the inquiry which I am addressing to the Chair is, in the event that these two amendments are defeated, will we proceed on considering my amendment, or do I have to tack my amendment on in the nature of amending the amendment to amend the amendment?

The SPEAKER pro tempore. Will the gentleman just wait his turn?

The Chair recognizes the majority whip.

Mr. PRENDERGAST. Mr. Speaker, to eliminate the confusion which reigns in the House, I urge everybody to vote "no" on the Geesey amendment.

On the question recurring,

Will the House agree to the amendments offered by the gentleman from York, Mr. Geesey?

The yeas and nays were required by Messrs. GEESEY and RITTER and were as follows:

YEAS—92

Alexander
Allen, W. W.
Anderson, J. H.
Arthurs
Beren
Bittle
Bixler
Brunner
Burkardt
Butera
Cessar
Crawford
Dager
Davis, R. O.
DeMedio
Dininni
Early
Fawcett
Fischer
Foor
Foster
Fox
Frankenburg
Fryer
Gallen
Geesey
Gekas
Good
Gring
Halverson
Harrier
Haskell
Hayes, D. S.
Hayes, S. E.
Hepford
Hill
Hopkins
Horn
Horner
Hovis
Hutchinson
Johnson, G. R.
Jones
Kahle
Kelly, J. B.
Kennedy
Klepper
Knepper
Kolter
Kury
LaMarca
Lee
Lehr
McClatchy
McCue
McCurdy
Mebus
Miller
Moore
Moscrip
Murtha
O'Connell
O'Pake
Pancoast
Parker, H. S.
Piper
Renwick
Reynolds
Rowe
Ruane
Saloom
Scheaffer
Schulze
Scirica
Semanoff
Shane
Shelhamer
Shuman
Smith
Spencer
Steele
Thomas
Ustynoski
Weidner
Westerberg
Wilson
Wilt, R. W.
Wilt, W. W.
Yahner
Yohn
Zimmerman
Zord

NAYS—106

Allen, F. M.
Anderson, S. A.
Barber
Bellomini
Bennett
Berkes
Berson
Blair
Bonetto
Craig
Caputo
Comer
Coppolino
Coyne
Crowley
Geisler
Gelfand
Gillette
Gleason
Gleeson
Goodman
Greenfield
Hamilton, J. H.
Hamilton, R. K.
Hetrick
Hismer
Irvis
Johnson, J. J.
Katz
Kaufman
Manbeck
Manderino
Martino
Mastrangelo
McGraw
McMonagle
Meholchick
Melton
Morris
Mullen, M. M.
Mullen, M. P.
Myers
Needham
Novak
O'Brien
Ryan
Rybak
Savitt
Scanlon
Schmitt
Seltzer
Shelton
Sherman
Shupnik
Stemmler
Stone
Stout
Sullivan
Taylor
Toll

Davis, D. M.
Davis, E. B.
Dombrowski
Dorsey
Doyle
Dreibelbis
Eckensberger
Englehart
Fee
Fenrich
Frank
Gallagher
Kelly, A. P.
Kester
Kistler
Klunk
Kowalyshyn
Laudadio
Lederer
Letterman
Lutty
Lynch, Francis
Lynch, Frank
Malady
O'Donnell
Parker, B. L.
Pezak
Pievsky
Prendergast
Rappaport
Renninger
Rieger
Ritter
Ruggiero
Rush
Valicenti
Vann
Walsh
Wansacz
Wargo
Wise
Wojdak
Worrilow
Wright
Zearfoss
Zeller

NOT VOTING—4

Perry
Wells
Williams
Fineman, Speaker

So the question was determined in the negative and the amendments were not agreed to.

On the question recurring,
Will the House agree to the amendments offered by the gentleman from Lehigh, Mr. Ritter?

The SPEAKER pro tempore. The Chair recognizes the gentleman from Lehigh, Mr. Ritter.

Mr. RITTER. Mr. Speaker, are we now going to vote on my amendment?

The SPEAKER pro tempore. Your amendment is now before the House.

The Chair recognizes the gentleman from Allegheny, Mr. Early.

Mr. EARLY. A point of clarification. Would Mr. Ritter mind clarifying a point?

The SPEAKER pro tempore. Will the gentleman from Lehigh, Mr. Ritter, consent to interrogation?

Mr. RITTER. I shall, Mr. Speaker.

The SPEAKER pro tempore. The gentleman will proceed.

Mr. EARLY. Are you thus stating that all money received from the lottery bill will be used for highways? Would you please explain your amendment? What do you want it to be used for?

Mr. RITTER. Mr. Speaker, as I said, my amendment will take all the proceeds of the state lottery and put it into the general fund.

Mr. EARLY. Mr. Speaker, has not the amendment, which we have added from the Ways and Means Committee, basically done that same thing?

Mr. RITTER. No, Mr. Speaker, it has not. It takes the proceeds of the state lottery and puts it into the general fund until June 30, 1972, and, thereafter, the money will be set aside in a special fund to provide tax relief for senior citizens.

Mr. EARLY. Are you saying then that the senior citizens should not receive the $60 million we are setting aside for them?

Mr. RITTER. No, Mr. Speaker, I have never advocated that. I think this Commonwealth is committed to a program of providing tax relief for senior citizens. I do not think the senior citizen, himself or herself, cares where the money comes from, be it from a special fund in the state lottery commission or from the general fund. I think this Commonwealth has indicated its support for that position.

I am simply saying that we should not clutter up the issue with another fund. Let us put all the money in the general fund and provide the tax relief for senior citizens through the general fund.

Mr. EARLY. Thank you, Mr. Speaker.

The SPEAKER pro tempore. The Chair recognizes the gentleman from Delaware, Mr. Zearfoss.

Mr. ZEARFOSS. Mr. Speaker, I rise in support of these amendments and also in support of the senior citizens of the Commonwealth.

In the absence of these amendments, I am afraid that the lottery bill will be taken as the only source of revenue for senior-citizen relief. If that is so, in future years if we do not get as much money as we should get from the lottery to give to the senior citizens, we are going to shortchange them.

I think the only way to guarantee that senior-citizen relief is in the amount that it should be is to put this money into the general fund and then take money from the general fund for senior-citizen relief in an amount which is adequate and appropriate at the time we do it. This position is supported by the Delaware County senior citizens' group, whom I just talked to before coming on the floor this afternoon. They are in favor of these amendments.

On the question recurring,
Will the House agree to the amendments offered by the gentleman from Lehigh, Mr. Ritter?

The yeas and nays were required by Messrs. RITTER and PRENDERGAST and were as follows:

YEAS—68

Arthurs
Berson
Bixler
Blair
Bonetto
Caputo
Crawford
Crowley
Davis, D. M.
Dorsey
Dreibelbis
Eckensberger
Fawcett
Fee
Fischer
Frank
Fryer
Gallen
Geisler
Gelfand
Greenfield
Halverson
Hamilton, J. H.
Harrier
Haskell
Homer
Hovis
Johnson, G. R.
Kaufman
Kester
Kistler
Klunk
Kury
Lehr
Letterman
Lynch, Frank
McCurdy
McGraw
Mebus
Mullen, M. P.
Needham
Novak
O'Donnell
O'Pake
Pancoast
Parker, H. S.
Rappaport
Renninger
Ritter
Rowe
Ruane
Ryan
Saloom
Savitt
Schmitt
Seltzer
Shelhamer
Smith
Spencer
Taylor
Valicenti
Westerberg
Wise
Wojdak
Worrilow
Yohn
Zearfoss
Zeller

NAYS—128

Alexander
Allen, F. M.
Allen, W. W.
Anderson, J. H.
Anderson, S. A.
Barber
Bellomini
Bennett
Beren
Berkes
Bittle
Braig
Brunner
Burkardt
Butera
Cessar
Coppolino
Coyne
Dager
Davis, E. B.
Davis, R. O.
DeMedio
Dininni
Dombrowski
Doyle
Early
Englehart
Fenrich
Foor
Foster
Fox
Frankenburg
Gallagher
Geesey
Gekas
Gillette
Gleason
Gleeson
Good
Goodman
Gring
Hamilton, R. K.
Hayes, D. S.
Hayes, S. E.
Hepford
Hetrick
Hill
Hopkins
Horn
Horner
Hutchinson
Irvis
Johnson, J. J.
Jones
Kahle
Katz
Kelly, A. P.
Kelly, J. B.
Kennedy
Klepper
Knepper
Kolter
Kowalyshyn
LaMarca
Laudadio
Lederer
Lee
Lutty
Lynch, Francis
Manbeck
Manderino
Martino
Mastrangelo
McClatchy
McCue
McMonagle
Meholchick
Melton
Miller
Moore
Morris
Moscrip
Mullen, M. M.
Murtha
Myers
O'Brien
O'Connell
Parker, B. L.
Pezak
Pievsky
Piper
Prendergast
Renwick
Reynolds
Rieger
Ruggiero
Rush
Rybak
Scanlon
Scheaffer
Schulze
Scirica
Semanoff
Shane
Shelton
Sherman
Shuman
Shupnik
Steele
Stemmler
Stone
Stout
Sullivan
Thomas
Toll
Ustynoski
Vann
Walsh
Wansacz
Wargo
Weidner
Wilson
Wilt, R. W.
Wilt, W. W.
Wright
Yahner
Zimmerman
Zord

NOT VOTING—6

Comer
Malady
Perry
Wells
Williams
Fineman, Speaker

So the question was determined in the negative and the amendments were not agreed to.

On the question recurring,

Will the House agree to the bill on second consideration?

Mr. GLEASON requested and obtained unanimous consent to offer the following amendments, which were read:

Amend Sec. 2, page 1, line 12, by striking out "AFTER JUNE 30, 1972"

Amend Sec. 12, page 9, lines 11 to 13, by striking out "SHALL BE TRANSFERRED TO THE" in line 11; all of line 12; and "REMAIN IN THE STATE LOTTERY FUND AND" in line 13

Amend Sec. 12, page 10, lines 1 and 2, by striking out "TRANSFER TO THE GENERAL FUND THROUGH JUNE 30, 1972, AND FOR"

On the question,

Will the House agree to the amendments offered by the gentleman from Cambria, Mr. Gleason?

The SPEAKER pro tempore. The Chair recognizes the gentleman from Cambria, Mr. Gleason.

Mr. GLEASON. Mr. Speaker, my amendment seeks to restore to this bill the original language which provided that the moneys realized from the state lottery would go to senior-citizen property tax relief.

I am reminded of the debate which has taken place in this House back in March, I believe, or February, in which it was generally acknowledged by the members here that the original appropriation of $60 million for the property tax relief was going to be insufficient.

I am reminded of the debate, Mr. Speaker, on the floor of this House by several members of this House who objected at the time to taking tenants out of House bill No. 192 and applying the money solely to real estate tax relief.

I am also reminded of the statements made in the record at that time that there would be a bill forthcoming very quickly to provide tax relief for senior citizens who were tenants or renters.

As I see the amendment which I am presenting here to the House, it would supplement the $60 million appropriation with proper legislation and would make further assurances that those people who do own real estate and who are elderly citizens and who are disabled would have more sufficient funds to meet the original intent of House bill No. 192.

I also see the possibility in this amendment to provide some relief for senior citizens and disabled people who rent real estate. I do not believe at this point, when we do have the resources and we do have the desire, that we should turn our backs on the senior citizens and put off for a year the relief which they have been entitled to and which we can give them now.

Because, Mr. Speaker, if this money goes into the general fund and we do not pinpoint the proceeds from the lottery, who is to say that in the future the lottery money will not continue to be in the general fund? We have already seen an expression of that opinion.

I feel that we have an opportunity with the lottery to pinpoint a need, to meet that need, and I am asking the members of the House today to accept my amendment and to provide the senior citizens their relief now, and not a year later.

Thank you.

The SPEAKER pro tempore. The Chair recognizes the gentleman from Lehigh, Mr. Ritter.

Mr. RITTER. Mr. Speaker, may I interrogate the gentleman, please?

The SPEAKER pro tempore. Will the gentleman from Cambria permit himself to be interrogated?

Mr. GLEASON. Yes, Mr. Speaker.

The SPEAKER pro tempore. The gentleman may proceed.

Mr. RITTER. Mr. Speaker, as I read the gentleman's amendment, it appears to me he is taking out any reference in the lottery bill to tax relief for senior citizens, property tax relief that is, and is, instead, inserting a provision which would indicate to me that all of the proceeds from the lottery will go to assistance for renters. Is that correct?

Mr. GLEASON. No, that is not correct. The amendment which I seek to have added to this bill simply restores the Senate language which provided that the money shall be used for senior citizens' property tax relief.

But I am saying that our job is not complete, Mr. Speaker. We have more to do. The gentleman, Mr. DeMedio, and the gentleman, Mr. Melton, have both expressed intense interest in fulfilling our obligations to our senior citizens by providing further tax relief.

I am suggesting that the amendment which I have before the members today will provide additional funds so we can provide more extensive tax relief in the future.

Mr. RITTER. Mr. Speaker, perhaps I have the wrong amendment, but the one I have refers to payment of assistance to tenants for rent.

Are we speaking of the same amendment?

Mr. GLEASON. I do not recall that that was the substance of my amendment.

Mr. RITTER. I am sorry. What the minority leader said earlier is what is happening now. I have amendments which are not signed and, therefore, I do not know who has submitted them.

Mr. GLEASON. My amendment is signed.

Mr. RITTER. I do not have a copy of it. I am sorry.

The SPEAKER pro tempore. Does someone have a copy to give to the gentleman from Lehigh?

The Chair recognizes the majority whip.

Mr. PRENDERGAST. Mr. Speaker, will you clear the board until we have a proper explanation of the amendment before the House of Representatives?

The SPEAKER pro tempore. The Chair hears no objection. The board will be cleared.

The Chair recognizes the majority whip.

Mr. PRENDERGAST. Mr. Speaker, I am now requesting that Mr. Gleason sees that a copy of his amendment is put on every member's desk before we proceed with his amendment again.

The SPEAKER pro tempore. The Chair will accede to the majority whip's position.

Will the pages please put a copy of Mr. Gleason's amendment on each member's desk?

We will wait temporarily until this is done.

QUESTION OF PERSONAL PRIVILEGE

The SPEAKER pro tempore. The Chair recognizes the gentleman from Cambria, Mr. Gleason. For what purpose does the gentleman rise?

Mr. GLEASON. I rise to a question of personal privilege.

The SPEAKER pro tempore. The gentleman will state it.

Mr. GLEASON. Mr. Speaker, my amendment is on everybody's desk. It was supposed to be put there by the chief clerk. It has my name clearly written on it. There must be a few gremlins on the other side.

The SPEAKER pro tempore. Apparently the members on the Democratic side do not agree, so we will have to wait until the amendment is on the desks.

The Chair recognizes the gentleman from Allegheny, Mr. Caputo.

Mr. CAPUTO. Mr. Speaker, will the gentleman, Mr. Gleason, permit himself to be interrogated?

The SPEAKER pro tempore. Will the gentleman permit himself to be interrogated?

Mr. GLEASON. Yes, I will.

The SPEAKER pro tempore. The gentleman may proceed.

Mr. CAPUTO. Mr. Speaker, I have a copy of the proposed amendment with no signature on it. It indicates in the fine print at the end, "payment of assistance to tenants for rent constituting property taxes." Is that the amendment in question?

Mr. GLEASON. That is not my amendment. I will read my amendment as it is written. The last line of the amendment is:

> Amend Sec. 12, page 10, lines 1 and 2, by striking out "TRANSFER TO THE GENERAL FUND THROUGH JUNE 30, 1971, AND FOR"

Mr. CAPUTO. Mr. Speaker, I do not have a copy of that.

QUESTION OF PARLIAMENTARY INQUIRY

The SPEAKER pro tempore. The Chair recognizes the gentleman from York, Mr. Geesey. For what purpose does the gentleman rise?

Mr. GEESEY. I rise to a question of parliamentary inquiry.

The SPEAKER pro tempore. The gentleman will state it.

Mr. GEESEY. Is there a rule of this House which requires an amendment to be on the desk of the members before voting upon it?

The SPEAKER pro tempore. The Chair says "yes."

Mr. GEESEY. When was the rule adopted?

The SPEAKER pro tempore. To help the members, you are correct in your statement. It is not in the rules, but it has been a custom in this House, at least this session, that we would have the amendment on each member's desk in order to have an amendment come to the attention of the members immediately. Any person can, at any time, ask that the amendment be passed over.

Mr. GEESEY. I appreciate that and I support that principle, but the point is that it is not, in fact, a rule of the House. The point is that just several weeks ago that very point was bypassed by all the members of this House and at no point was there one voice raised on this side objecting to it. Now, if there is going to be a rule, then let there be a rule and we will comply. But if there is not a rule, then let us, once and for all, be fair to the members on both sides of the aisle.

The SPEAKER pro tempore. The Chair has been in error and apologizes. But it is a custom of this House to have those amendments on the members' desks, especially if they are controversial in their effect.

The Chair recognizes the gentleman from Mercer, Mr. Bennett.

Mr. BENNETT. Mr. Speaker, I think this points up one of the glaring deficiencies that we have had in this House. It is my understanding, and I think I remember correctly, that it was in the proposed rules that a copy of an amendment be on each member's desk. Mr. Eckensberger, for one, has risen many times asking for this. I think this particular situation points out very clearly that that amendment should be on the members' desks, because in truth and in fairness to all of us here, the copy was never put on my desk, to my knowledge, at least. It is not there now. I do not fully understand the amendment and I think, just to be repetitious, this points up that those proposed rules should be adopted. I hope Mr. Geesey will appreciate what we are saying.

Thank you.

The SPEAKER pro tempore. It has always been a rule and a custom of the House that when the leaders of the House agree that the members have their amendments on the desks, we do that; when they do not agree, [illegible] do not.

The Chair recognizes the gentleman from Montgomery, Mr. Dager.

Mr. DAGER. Mr. Speaker, I think the difficulty could be ironed out very quickly. Every member should have a copy of the bill in front of him, and I think Mr. Gleason—whose amendment is just removing what is in capital letters and that which was put into a Senate bill—could point out to us quickly what is being deleted and what deletions are being made.

I would ask Mr. Gleason if he could do that so we could proceed.

The SPEAKER pro tempore. The Chair recognizes the gentleman from Cambria, Mr. Gleason.

Mr. GLEASON. Mr. Speaker, this is an extremely important amendment. The senior citizens, the disabled and the widows of this state need the help. I do not propose to get involved in a long wrangle. If Mr. Prendergast insists that additional copies be made, I am more than happy so that the people can deliberate further on this amendment.

I do not propose that this thing should deteriorate into a political hassle. I think it is much too important.

The SPEAKER pro tempore. The House will be at ease until we get the amendments on the members' desks.

The House will come to order. The amendments are now on the desks of the members of the House.

QUESTION OF PARLIAMENTARY INQUIRY

The SPEAKER pro tempore. The Chair recognizes the gentleman from Allegheny, Mr. Early. For what purpose does the gentleman rise?

Mr. EARLY. I rise to a question of parliamentary inquiry.

The SPEAKER pro tempore. The gentleman will state it.

Mr. EARLY. Mr. Speaker, is it proper for me to ask that only those members in their seats be permitted to vote?

The SPEAKER pro tempore. That is the rule of the House. Everybody is under the injunction to be in his seat and voting.

Mr. EARLY. Thank you, Mr. Speaker.

The SPEAKER pro tempore. The Chair recognizes the gentleman from Lehigh, Mr. Ritter.

Mr. RITTER. Mr. Speaker, I want to clarify one point that was made by the gentleman, Mr. Gleason. I think there was an inference made that his amendment or some of these other amendments will, in fact, provide additional tax money for senior citizens. That is absolutely untrue.

This bill, in its amended form as Mr. Gleason attempts to do, is not going to provide one more dollar for tax relief for senior citizens. It seems to me that we are arguing a mute point as to whether or not the amendments ought to go in. I think that any inference made that—by accepting these or any other amendments—we will get additional money for senior citizens is not being fair because this bill is not going to provide all the money that is necessary anyway.

That is why the provision is in this bill that the additional money that is necessary will be taken from the general fund.

I think further, Mr. Speaker, that if the gentleman intends to put the language back in identical fashion to what the state Senate had, it would have been better to revert to the prior printer's number than it would be to amend the bill, because if it is amended, it will have to go back to the Senate for concurrence even though the language is identical.

I would ask, Mr. Speaker, that we vote in the negative on the amendment.

The SPEAKER pro tempore. The Chair recognizes the gentleman from Cambria, Mr. Gleason.

Mr. GLEASON. I believe we have debated the measure sufficiently. The members have the copies. Some of them have two copies before them. I do not believe we should protract this. I am asking the members here to cast a vote for aid to the senior citizens, to the disabled and the widowed people of Pennsylvania, and to put this aid in effect now.

The SPEAKER pro tempore. The Chair recognizes the gentleman from Lehigh, Mr. Ritter.

Mr. RITTER. Mr. Speaker, may I interrogate the gentleman, Mr. Gleason, please?

The SPEAKER pro tempore. Will the gentleman from Cambria permit himself to be interrogated?

Mr. GLEASON. I shall, Mr. Speaker.

The SPEAKER pro tempore. The gentleman may proceed.

Mr. RITTER. Mr. Speaker, will the gentleman tell me how his amendment would provide any additional money for senior-citizen tax relief over and above the $60 million that has been allocated or that will be set aside by this General Assembly?

Mr. GLEASON. I would remind the gentleman from Lehigh, Mr. Speaker, that the $60 million is an appropriation out of the general fund. This seeks to supplement the $60 million by providing additional money from the lottery for this purpose.

This money is not going into the general fund. The sole thrust of the amendment is to keep the money out of the general fund and to set it up for this specific purpose. I admit, Mr. Speaker, there will perhaps have to be supplemental legislation and I am inviting the members on the other side of the aisle, as well as the members here, to supplement this with additional legislation to provide relief possibly for tenants and renters.

Mr. RITTER. Then the gentleman is saying that this money is in addition to any other money that this General Assembly might set aside for tax relief for senior citizens.

Mr. GLEASON. Yes.

The SPEAKER pro tempore. The Chair recognizes the gentleman from Philadelphia, Mr. Gelfand.

Mr. GELFAND. Mr. Speaker, I think that we ought to have a clear understanding of specifically what the amendment does. It does not provide any supplemental aid to the elderly citizens or to widows. All it does is to say that the funds collected by the lottery shall be reserved for that purpose.

We have already passed legislation providing for aid to the elderly citizens and to widows, et cetera. These would only say that funds collected here shall be utilized for that purpose.

If we were to give elderly citizens any additional aid, we would then have to pass new legislation, providing this bill and this amendment does not do that. All it does is set the bill back to the way it was when it passed the Senate and says the money collected herein shall be reserved for aid to the elderly citizens. That is all it does.

I think we ought to vote against it.

The SPEAKER pro tempore. The Chair recognizes the gentleman from Cambria, Mr. Gleason.

Mr. GLEASON. Mr. Speaker, one, hopefully, last point. I did not say that the legislation has been complete to provide the full relief which we seek to give. I invite, as I had said before in my remarks, completing legislation to provide that this money can be used in addition to the appropriation of $60 million out of the general fund.

Thank you.

The SPEAKER pro tempore. The Chair recognizes the majority whip.

Mr. PRENDERGAST. Mr. Speaker, I request that members on both sides vote in the negative on Mr. Gleason's amendment.

I ask for a roll-call vote.

On the question recurring,

Will the House agree to the amendments offered by the gentleman from Cambria, Mr. Gleason?

The yeas and nays were required by Messrs. GLEASON and RITTER and were as follows:

YEAS—142

Alexander
Allen, F. M.
Allen, W. W.
Anderson, J. H.
Bellomini
Bennett
Beren
Bittle
Bixler
Braig
Brunner
Burkardt
Butera
Caputo
Cessar
Comer
Coppolino
Coyne
Crawford
Dager
Davis, D. M.
Davis, R. O.
DeMedio
Dininni
Dombrowski

Geesey
Geisler
Gekas
Gleason
Gleeson
Good
Goodman
Greenfield
Gring
Halverson
Hamilton, J. H.
Harrier
Haskell
Hayes, D. S.
Hayes, S. E.
Hepford
Hill
Homer
Hopkins
Horn
Horner
Johnson, G. R.
Jones
Kahle
Katz

Lynch, Frank
Malady
Manbeck
Manderino
Mastrangelo
McClatchy
McCue
McCurdy
McGraw
Mebus
Meholchick
Melton
Miller
Moore
Morris
Moscrip
Mullen, M. M.
Needham
Novak
O Brien
O Connell
O Donnell
O Pake
Pancoast
Parker, H. S.

Ryan
Rybak
Saloom
Scheaffer
Schulze
Scirica
Seltzer
Semanoff
Shane
Shelhamer
Sherman
Smith
Spencer
Steele
Stemmler
Stone
Stout
Taylor
Thomas
Ustynoski
Wansacz
Weidner
Westerberg
Wilson
Wilt, R. W.

Dorsey
Doyle
Early
Fawcett
Fischer
Foor
Foster
Fox
Frank
Frankenburg
Gallen

Kelly, J. B.
Kennedy
Kester
Kistler
Klepper
Knepper
Kowalyshyn
Kury
Lee
Lehr
Lynch, Francis

Pezak
Pievsky
Piper
Renninger
Reynolds
Rieger
Rowe
Ruane
Ruggiero
Rush

Wilt, W. W.
Wise
Worrilow
Wright
Yahner
Yohn
Zearfoss
Zeller
Zimmerman
Zord

NAYS—51

Anderson, S. A.
Arthurs
Barber
Berkes
Berson
Bonetto
Davis, E. B.
Dreibelbis
Eckensberger
Englehart
Fee
Fenrich
Fryer

Gallagher
Gelfand
Gillette
Hamilton, R. K.
Hetrick
Hovis
Hutchinson
Irvis
Johnson, J. J.
Kaufman
Kelly, A. P.
Klunk
Kolter

LaMarca
Laudadio
Lederer
Lutty
McMonagle
Murtha
Myers
Parker, B. L.
Perry
Prendergast
Rappaport
Renwick
Ritter

Savitt
Scanlon
Schmitt
Shelton
Shuman
Shupnik
Sullivan
Toll
Valicenti
Vann
Wargo
Wojdak

NOT VOTING—9

Blair
Crowley
Letterman

Martino
Mullen, M. P.
Walsh

Wells
Williams

Fineman,
Speaker

So the question was determined in the affirmative and the amendments were agreed to.

On the question recurring,
Will the House agree to the bill on second consideration?
Mr. DeMEDIO requested and obtained unanimous consent to offer the following amendments, which were read:

Amend Sec. 2, page 1, line 12 by striking out "JUNE 30," and inserting: January 1,
Amend Sec. 2, page 1, line 14 by removing the period after "elderly" and inserting: for taxes paid in 1971 and thereafter. Reimbursement on any such claim shall be made from the proceeds of the lottery as soon as possible after filing, but in no case later than sixty days from the date the claim is filed.
Amend Sec. 12, page 9, line 12, by striking out "JUNE 30." and inserting: January 1.
Amend Sec. 12, page 9, line 15 by inserting after "elderly": for taxes paid in 1971 and thereafter
Amend Sec. 12, page 9, line 17 by inserting after "Act." ": Reimbursment on any such claim shall be made from the proceeds of the lottery as soon as possible after filing, but in no case later than sixty days from the date the claim is filed.

On the question,
Will the House agree to the amendments offered by the gentleman from Washington, Mr. DeMedio?

The SPEAKER pro tempore. Are all the amendments of Mr. DeMedio on all the members' desks?
Mr. DeMEDIO. Mr. Speaker, I think that after my brief explanation, it will not be necessary that they have an amendment before them if, in fact, they do not have one before them.

The SPEAKER pro tempore. The Chair recognizes the minority leader.
Mr. LEE. Mr. Speaker, I am sure the people on this side of the aisle could not possibly understand them.

The SPEAKER pro tempore. The Chair recognizes the gentleman from Washington, Mr. DeMedio.
Mr. DeMEDIO. If the gentleman insists after I get done with my brief explanation, I will wait for the amendments to be placed on the desk.
Mr. Speaker, my amendment would have done what the prior amendment which we just passed has done, but it goes one step further.
The present act for tax relief for the elderly is so set up that no relief will be granted until July, 1972. Although the tax relief is for taxes paid this year, the present act defers any reimbursement until July, 1972.
My amendment goes one step further, including that of the Representative on the other side, and adds the language that reimbursement or taxes paid in 1971 shall be made from the proceeds of this lottery as soon as possible, but in no case later than 60 days after the claim is filed.
To vote against this amendment would only mean that the tax relief that was granted to the elderly will be deferred, but not only that. It means that our problem will be compounded because in the 1972-73 budget we will have to come up with, not $60 million, but at least $120 million, to carry out our commitments to the constituents in our districts.
Therefore, I am asking that the members on both sides of the aisle vote for this amendment, so that the tax relief, which we have long promised the elderly and which has been so slow in coming, will be granted after January 1, 1972.
Thank you, Mr. Speaker.

The SPEAKER pro tempore. The Chair recognizes the gentleman from York, Mr. Geesey.
Mr. GEESEY. Mr. Speaker, I carefully searched my desk and I regret to advise the gentleman that I do not have a copy of his amendments. Would he be kind enough to provide a copy for both myself and the other members on this side of the aisle who do not have a copy? Thank you.
The SPEAKER pro tempore. Will the chief clerk make copies of the amendment immediately and pass them out?

The Chair recognizes the majority leader.
Mr. IRVIS. Mr. Speaker, because of the passage of time, I would suggest that we defer Mr. DeMedio's amendment until it can be reproduced. I understand we have an amplitude of other amendments to take up and I would suggest that we call up another amendment.
The SPEAKER pro tempore. Does everybody agree? The Chair hears no objection.

On the question recurring,
Will the House agree to the bill on second consideration?
Mr. MELTON requested and obtained unanimous consent to offer the following amendments, which were read:

Amend Sec. 6, page 4, line 5 by striking out "twenty-one" and inserting: eighteen

On the question,
Will the House agree to the amendments offered by the gentleman from Philadelphia, Mr. Melton?

The SPEAKER pro tempore. The Chair recognizes the gentleman from Philadelphia, Mr. Melton.
Mr. MELTON. Thank you, Mr. Speaker.
Now that we have provided additional money for our senior citizens, I would like the members of the House to turn their attention to this amendment which would, in fact, do something for our young people.
This amendment is just one of a technical nature. It reduces the age of licensing of salesmen under this bill from 21 to 18 and, by so doing, would offer an additional employment opportunity for many of our young people.

I trust that I can have the support of the members on both sides of the aisle in casting an affirmative vote for this amendment.

The SPEAKER pro tempore. The Chair recognizes the gentleman from Lehigh, Mr. Ritter.

Mr. RITTER. I raise only a technical point, Mr. Speaker.

The amendment that I have says, "Amend section 6, page 4, line 3." I find no section 6 on page 4.

Mr. Speaker, I withdraw my objection.

The SPEAKER pro tempore. Did you find it? Very good. Are there any further comments on the Melton amendment?

The Chair recognizes the gentleman from Philadelphia, Mr. Gelfand.

Mr. GELFAND. Mr. Speaker, I would just like to point out that if this amendment gets into the bill, it will create an inconsistency in the bill unless it is amended further. A person will be able to act as an agent to sell lottery tickets if he is 18 years or older, but at the same time, he will not be able to purchase a lottery ticket unless he is 21 years or older.

It is very, very inconsistent and it is ridiculous on its face. For that reason, I would suggest we vote down the amendment.

The SPEAKER pro tempore. The Chair recognizes the gentleman from Philadelphia, Mr. Melton.

Mr. MELTON. Mr. Speaker, it was not my intent to interfere with any other section of this bill. My amendment merely reduces the age for licensing the agents from 21 to 18.

However, to answer the objection of the gentleman from Philadelphia, Mr. Gelfand, if it is his desire and if it is the desire of this House to amend that bill along the lines that he was referring to, then I do, in fact, have an amendment here to do just that.

If it is the will of the members of this House to have this type of an amendment before them, then after this vote, in fact, I will introduce same.

Here again, I urge an affirmative vote on behalf of this amendment.

On the question recurring,

Will the House agree to the amendments offered by the gentleman from Philadelphia, Mr. Melton?

The yeas and nays were required by Messrs. MELTON and GELFAND and were as follows:

YEAS—30

Beren
Berson
Caputo
Coppolino
Dager
Fawcett
Gallen
Geesey
Halverson
Hepford
Hutchinson
Johnson, G. R.
Jones
Katz
Kaufman
Lee
Manderino
Mastrangelo
McClatchy
McCurdy
Melton
Miller
O'Brien
O'Connell
Renninger
Ryan
Saloom
Wilson
Wright
Zearfoss

NAYS—160

Alexander
Allen, F. M.
Allen, W. W.
Anderson, J. H.
Anderson, S. A.
Arthurs
Barber
Bellomini
Bennett
Berkes
Bittle
Bixler
Blair
Bonetto
Braig
Brunner
Burkardt
Butera
Cessar
Comer
Coyne
Crawford
Crowley
Davis, D. M.
Davis, R. O.
DeMedio
Dininni
Dombrowski
Dorsey
Doyle
Dreibelbis
Early
Eckensberger
Englehart
Fee
Fenrich
Fischer
Foor
Foster
Fox
Frank
Frankenburg
Fryer
Geisler
Gekas
Gelfand
Gillette
Gleason
Gleeson
Good
Goodman
Greenfield
Gring
Hamilton, J. H.
Hamilton, R. K.
Harrier
Haskell
Hayes, D. S.
Hayes, S. E.
Hetrick
Hill
Horner
Hopkins
Horn
Horner
Hovis
Irvis
Kahle
Kelly, A. P.
Kelly, J. B.
Kennedy
Kester
Kistler
Klepper
Klunk
Knepper
Kolter
Kowalyshyn
Kury
LaMarca
Laudadio
Lederer
Lehr
Lynch, Francis
Lynch, Frank
Malady
Manbeck
McCue
McGraw
McMonagle
Meholchick
Moore
Morris
Moscrip
Mullen, M. M.
Murtha
Myers
Needham
Novak
O'Donnell
O'Pake
Pancoast
Parker, B. L.
Parker, H. S.
Perry
Pezak
Pievsky
Piper
Prendergast
Rappaport
Renwick
Reynolds
Rieger
Ritter
Rowe
Ruane
Ruggiero
Rush
Rybak
Savitt
Scanlon
Scheaffer
Schmitt
Schulze
Scirica
Seltzer
Semanoff
Shane
Shelhamer
Shelton
Sherman
Shuman
Shupnik
Smith
Spencer
Steele
Stemmler
Stone
Stout
Sullivan
Taylor
Thomas
Toll
Ustynoski
Valicenti
Vann
Wansacz
Wargo
Weidner
Westerberg
Wilt, R. W.
Wilt, W. W.
Wise
Wojdak
Worrilow
Yahner
Yohn
Zeller
Zimmerman
Zord

NOT VOTING—12

Davis, E. B.
Gallagher
Johnson, J. J.
Letterman
Lutty
Martino
Mebus
Mullen, M. P.
Walsh
Wells
Williams
Fineman,
Speaker

So the question was determined in the negative and the amendments were not agreed to.

On the question recurring,

Will the House agree to the bill on second consideration?

Mr. PEZAK requested and obtained unanimous consent to offer the following amendments, which were read:

Amend Sec. 2, page 1, line 13 by striking out "purpose" and inserting: purposes

Amend Sec. 2, page 1, line 14 by removing the period after "elderly" and inserting: and for financing existing or hereinafter enacted programs for educating and otherwise aiding blind and mentally retarded persons, such proceeds to be split eighty per cent for the elderly purpose and the remaining twenty per cent for the blind and mentally retarded persons' purpose.

Amend Sec. 6, page 4, line 21 by inserting aftr "elderly": and for educating and aiding the blind and mentally retarded

Amend Sec. 6, page 4, line 22 by striking out "section" and inserting: sections 2 and

Amend Sec. 12, page 9, line 14, by striking out "purpose" and inserting: purposes

Amend Sec. 12, page 9, line 15 by inserting after "elderly": program, eighty per cent

Amend Sec. 12, page 9, line 17 by removing the period after "Act" and inserting a comma

Amend Sec. 12, page 9, line 17 by inserting after "Act," ": and the remaining twenty per cent, pursuant to existing or hereinafter enacted programs for educating and otherwise aiding blind and mentally retarded persons.

Amend Sec. 12, page 9, line 29, by inserting after "elderly": and for educating and aiding the blind and mentally retarded

Amend Sec. 12, page 9, line 30 by striking out "section" and inserting: sections 2 and

On the question,

Will the House agree to the amendments offered by the gentleman from Philadelphia, Mr. Pezak?

The SPEAKER pro tempore. The Chair recognizes the gentleman from Philadelphia, Mr. Pezak.

Mr. PEZAK. Mr. Speaker, all these amendments do is to give the elderly people 80 percent, 10 percent to the blind and 10 percent to the mentally retarded children for education or otherwise, whatever the Health Department will do with it.

I ask for a roll-call vote.

On the question recurring,

Will the House agree to the amendments offered by the gentleman from Philadelphia, Mr. Pezak?

The yeas and nays were required by Messrs. PEZAK and PRENDERGAST and were as follows:

YEAS—48

Allen, W. W.
Arthurs
Bennett
Blair
Caputo
Coppolino
Crawford
Crowley
Dager
Davis, D. M.
Dorsey
Doyle
Fawcett
Fischer
Fox
Geesey
Geisler
Gillette
Good
Halverson
Haskell
Hayes, D. S.
Hepford
Hutchinson
Kennedy
Klunk
Mastrangelo
Mullen, M. P.
Needham
O'Donnell
Pezak
Renninger
Reynolds
Ruggiero
Ryan
Rybak
Saloom
Schulze
Sherman
Taylor
Ustynoski
Vann
Wilson
Wilt, R. W.
Wilt, W. W.
Wojdak
Worrilow
Zearfoss

NAYS—146

Alexander
Allen, F. M.
Anderson, J. H.
Anderson, S. A.
Barber
Bellomini
Beren
Berkes
Berson
Bittle
Bixler
Bonetto
Braig
Brunner
Burkardt
Butera
Cessar
Comer
Coyne
Davis, E. B.
Davis, R. O.
DeMedio
Dininni
Dombrowski
Dreibelbis
Early
Eckensberger
Englehart
Fee
Fenrich
Foor
Foster
Frankenburg
Fryer
Gallagher
Gallen
Gekas
Gelfand
Gleason
Gleeson
Goodman
Greenfield
Gring
Hamilton, J. H.
Hamilton, R. K.
Harrier
Hayes, S. E.
Hetrick
Hill
Homer
Hopkins
Hess
Horner
Hovis
Irvis
Johnson, G. R.
Johnson, J. J.
Jones
Kahle
Katz
Kaufman
Kelly, A. P.
Kelly, J. B.
Kester
Kistler
Klepper
Knepper
Kolter
Kowalyshyn
Kury
LaMarca
Laudadio
Lederer
Lee
Lehr
Lutty
Lynch, Francis
Lynch, Frank
Malady
Manbeck
Manderino
McClatchy
McCue
McCurdy
McGraw
McMonagle
Mebus
Meholchick
Melton
Miller
Moore
Morris
Moscrip
Mullen, M. M.
Murtha
Myers
Novak
O'Brien
O'Connell
O'Pake
Pancoast
Parker, B. L.
Parker, H. S.
Pievsky
Piper
Prendergast
Rappaport
Renwick
Rieger
Ritter
Rowe
Ruane
Rush
Savitt
Scanlon
Scheaffer
Schmitt
Scirica
Seltzer
Semanoff
Shane
Shelhamer
Shelton
Shuman
Shupnik
Smith
Spencer
Steele
Stemmler
Stone
Stout
Sullivan
Thomas
Toll
Valicenti
Wansacz
Wargo
Weidner
Westerberg
Wise
Wright
Yahner
Yohn
Zeller
Zimmerman
Zord

NOT VOTING—8

Frank
Letterman
Martino
Perry
Walsh
Wells
Williams
Fineman,
Speaker

So the question was determined in the negative and the amendments were not agreed to.

DEMOCRATIC CAUCUS

The SPEAKER pro tempore. The Chair recognizes the majority whip.

Mr. PRENDERGAST. Mr. Speaker, I would request a recess for the purpose of a Democratic caucus. The recess will be for 20 minutes. We will return to the floor at 3:35 p.m.

QUESTION OF PARLIAMENTARY INQUIRY

The SPEAKER pro tempore. The Chair recognizes the gentleman from Lehigh, Mr. Eckensberger. For what purpose does the gentleman rise?

Mr. ECKENSBERGER. I rise to a question of parliamentary inquiry.

The SPEAKER pro tempore. The gentleman will state it.

Mr. ECKENSBERGER. Mr. Speaker, I have amendments to offer to Senate bill No. 618. Can the Chair advise me as to whether or not we are going to take up further amendments?

The SPEAKER pro tempore. We will.

Mr. ECKENSBERGER. Thank you, Mr. Speaker.

The SPEAKER pro tempore. That is the purpose of the Democratic caucus.

The Chair recognizes the majority whip.

Mr. PRENDERGAST. Mr. Speaker, will the members of the Democratic Party please proceed to the caucus room so we can get this caucus over with and get back to the floor and dispense with the business of the day?

The SPEAKER pro tempore. The Chair recognizes the minority leader.

Mr. LEE. Mr. Speaker, for the information of our members and I guess for the information of the members on the other side, we do not need a caucus. We are used to taking our lumps once in a while.

The SPEAKER pro tempore. The Chair thanks the gentleman.

Will the members of the Democratic caucus meet immediately to dispatch the business of the caucus and return to the floor?

BILLS REPORTED AND CONSIDERED FIRST TIME

HOUSE BILL No. 364 By Mr. GALLAGHER

An Act amending the "Public School Code of 1949," approved March 10, 1949 (P. L. 30), providing for permanent standard limited certificates in certain circumstances.

Reported from Committee on Education.

HOUSE BILL No. 1213 By Mr. GALLAGHER

An Act providing for Commonwealth support for institutions of higher education to furnish learning and special counseling services for undergraduate students whose cultural, economic and educational disadvantages impair their initial ability to pursue successfully higher education opportunities, and making an appropriation.

Reported from Committee on Education.

HOUSE BILL No. 1216 By Mr. GALLAGHER

An Act amending the "Public School Code of 1949," approved March 10, 1949 (P. L. 30), providing for incentive payments for certain kindergarten programs.

Reported from Committee on Education.

HOUSE BILL No. 1219 By Mr. GELFAND

An Act amending "The Insurance Department Act of one thousand nine hundred and twenty-one," approved May 17, 1921 (P. L. 789), continuing the provisions of section 211.1 relating to certain assessments in effect for a further period.

Reported from Committee on Consumer Protection.

SENATE BILL No. 571

An Act making an appropriation to the Department of Environmental Resources out of various funds for payment of annual fixed charges in lieu of taxes to political subdivisions or school districts on lands acquired by the Commonwealth for Project 70.

SENATE BILL No. 572

An Act making an appropriation to the Department of Property and Supplies out of various funds for payment of rental charges to The General State Authority.

SENATE BILL No. 573

An Act making appropriations to the Treasury Department out of various funds to pay replacement checks issued in lieu of outstanding checks when presented and to adjust errors.

Whereupon,

The SPEAKER pro tempore, in the presence of the House, signed the same.

HOUSE RESUMES CONSIDERATION OF SENATE BILL No. 618

Agreeable to order,

The House resumed second consideration of Senate bill No. 618, printer's No. 905.

On the question recurring,

Will the House agree to the amendments offered by the gentleman from Washington, Mr. DeMedio?

The SPEAKER pro tempore. The Chair recognizes the gentleman from Washington, Mr. DeMedio.

Mr. DeMEDIO. Mr. Speaker, I again urge the members on both sides to vote in the affirmative on this amendment, because, as I pointed out before, we already are committed to $60 million for relief on taxes paid for the current year.

Presently, the reimbursement is deferred to July, 1972, which means that in the 1972-73 budget there will have to be $120 million, at least, to cover our commitment for the tax year 1971-72. We will be doing ourselves a great favor in helping to alleviate a serious fiscal problem, which will be compounded if we do not vote in favor of the amendment which I have proposed.

Therefore, I again ask members on both sides to vote in the affirmative.

Thank you, Mr. Speaker.

The SPEAKER pro tempore. The Chair recognizes the gentleman from Cambria, Mr. Gleason.

Mr. GLEASON. Mr. Speaker, I am very happy to urge the members of this delegation to support Mr. DeMedio's amendments.

On the question recurring,

Will the House agree to the amendments offered by the gentleman from Washington, Mr. DeMedio?

The yeas and nays were required by Messrs. DeMEDIO and GLEASON and were as follows:

YEAS—175

Alexander
Allen, F. M.
Allen, W. W.
Anderson, J. H.
Arthurs
Barber
Bellomini
Bennett

Gallagher
Gallen
Geesey
Geisler
Gekas
Gillette
Gleason
Gleeson

Lutty
Lynch, Francis
Lynch, Frank
Malady
Manbeck
Manderino
Martino
Mastrangelo

Rybak
Saloom
Savitt
Scanlon
Scheaffer
Schmitt
Schulze
Scirica

Beren
Berson
Bittle
Bixler
Blair
Bonetto
Braig
Brunner
Burkardt
Butera
Caputo
Cessar
Corner
Coppolino
Coyne
Crawford
Crowley
Dager
Davis, D. M.
Davis, E. B.
Davis, R. O.
DeMedio
Dininni
Dombrowski
Dorsey
Doyle
Early
Fawcett
Fee
Fenrich
Fischer
Foor
Foster
Fox
Frankenburg
Fryer

Good
Goodman
Greenfield
Gring
Halverson
Hamilton, J. H.
Hamilton, R. K.
Harrier
Haskell
Hayes, D. S.
Hayes, S. E.
Hepford
Hill
Homer
Hopkins
Horn
Horner
Hutchinson
Johnson, G. R.
Johnson, J. J.
Jones
Kahle
Katz
Kaufman
Kelly, J. B.
Kennedy
Kester
Kistler
Klunk
Knepper
Kolter
Kury
Laudadio
Lederer
Lee
Lehr

McClatchy
McCue
McCurdy
McGraw
McMonagle
Mebus
Menolchick
Miller
Moore
Morris
Moscrip
Mullen, M. M.
Murtha
Needham
Novak
O'Brien
O'Connell
O'Donnell
O'Pake
Pancoast
Parker, B. L.
Parker, H. S.
Pezak
Pievsky
Piper
Prendergast
Rappaport
Renninger
Renwick
Reynolds
Rieger
Rowe
Ruane
Ruggiero
Rush
Ryan

Seltzer
Semanoff
Shane
Shelhamer
Shelton
Sherman
Shupnik
Smith
Spencer
Steele
Stemmler
Stone
Stout
Sullivan
Taylor
Thomas
Ustynoski
Vann
Walsh
Wansacz
Wargo
Weidner
Westerberg
Williams
Wilson
Wilt, R. W.
Wilt, W. W.
Wojdak
Worrilow
Wright
Yahner
Yohn
Zearfoss
Zimmerman
Zord

NAYS—22

Anderson, S. A.
Berkes
Dreibelbis
Eckensberger
Englehart
Gelfand

Hetrick
Hovis
Irvis
Kelly, A. P.
Klepper
Kowalyshyn

LaMarca
Melton
Mullen, M. P.
Myers
Ritter

Shuman
Toll
Valicenti
Wise
Zeller

NOT VOTING—5

Frank
Letterman

Perry

Wells

Fineman,
Speaker

So the question was determined in the affirmative and the amendments were agreed to.

On the question recurring,

Will the House agree to the bill on second consideration?

Mr. ECKENSBERGER requested and obtained unanimous consent to offer the following amendments, which were read:

Amend Title, page 1, line 1 by inserting after "Providing": temporarily

Amend Sec. 17, page 11, line 12 by removing the period after "1971" and inserting: and shall remain in effect until June 30, 1976.

On the question,

Will the House agree to the amendments offered by the gentleman from Lehigh, Mr. Eckensberger?

The SPEAKER pro tempore. The Chair recognizes the gentleman from Lehigh, Mr. Eckensberger.

Mr. ECKENSBERGER. Mr. Speaker, assuming that we adopt Senate Bill No. 618, these amendments do nothing more than repeal the act by June 30, 1976, so that, in effect, in five years the legislature would have to take another look at the lottery program, reevaluate it and decide whether or not it wants to continue it.

I ask that all members vote in favor of the amendment.

On the question recurring,

Will the House agree to the amendments offered by the gentleman from Lehigh, Mr. Eckensberger?

The yeas and nays were required by Messrs. ECKENSBERGER and PRENDERGAST and were as follows:

YEAS—187

Alexander
Allen, F. M.
Allen, W. W.
Anderson, J. H.
Anderson, S. A.
Arthurs
Barber
Bellomini
Bennett
Berkes
Berson
Bixler
Blair
Bonetto
Braig
Brunner
Burkardt
Butera
Caputo
Cessar
Comer
Coppolino
Coyne
Crawford
Dager
Davis, D. M.
Davis, E. B.
Davis, R. O.
DeMedio
Dininni
Dombrowski
Dorsey
Doyle
Dreibelbis
Early
Eckensberger
Englehart
Fawcett
Fee
Fenrich
Fischer
Foor
Foster
Fox
Frankenburg
Fryer
Gallagher
Gallen
Geesey
Geisler
Gekas
Gelfand
Gillette
Gleason
Gleeson
Good
Goodman
Greenfield
Gring
Halverson
Hamilton, J. H.
Hamilton, R. K.
Harrier
Haskell
Hayes, D. S.
Hayes, S. E.
Hepford
Hetrick
Hill
Homer
Hopkins
Horn
Horner
Hovis
Hutchinson
Irvis
Johnson, G. R.
Johnson, J. J.
Jones
Kahle
Katz
Kaufman
Kelly, J. B.
Kennedy
Kester
Kistler
Klepper
Klunk
Knepper
Kolter
Kowalyshyn
Kury
Laudadio
Lederer
Lee
Lehr
Lutty
Lynch, Francis
Lynch, Frank
Malady
Manbeck
Manderino
Martino
Mastrangelo
McClatchy
McCue
McCurdy
McGraw
McMonagle
Mebus
Meholchick
Miller
Moore
Morris
Moscrip
Mullen, M. M.
Mullen, M. P.
Murtha
Myers
Needham
Novak
O'Brien
O'Connell
O'Donnell
O'Pake
Pancoast
Parker, B. L.
Parker, H. S.
Pezak
Pievsky
Piper
Prendergast
Rappaport
Renninger
Renwick
Reynolds
Rieger
Rowe
Ruane
Ruggiero
Rush
Ryan
Rybak
Saloom
Savitt
Scanlon
Scheaffer
Schmitt
Schulze
Scirica
Seltzer
Semanoff
Shane
Shelhamer
Shelton
Sherman
Shupnik
Smith
Spencer
Steele
Stemmler
Stone
Stout
Sullivan
Taylor
Thomas
Ustynoski
Valicenti
Vann
Walsh
Wansacz
Wargo
Weidner
Westerberg
Wilson
Wilt, R. W.
Wilt, W. W.
Wise
Wojdak
Worrilow
Wright
Yahner
Yohn
Zearfoss
Zeller
Zimmerman
Zord

NAYS—9

Beren
Crowley
Frank
Kelly, A. P.
LaMarca
Melton
Ritter
Shuman
Toll

NOT VOTING—6

Bittle
Letterman
Perry
Wells
Williams
Fineman,
Speaker

So the question was determined in the affirmative and the amendments were agreed to.

On the question recurring,

Will the House agree to the bill on second consideration?

Mr. MILLER requested and obtained unanimous consent to offer the following amendments, which were read:

Amend Sec. 6, page 3, line 23 by removing the period after "lottery" and inserting: except that tickets or shares shall be sold in denominations of twenty-five cents, fifty cents and upwards.

Amend Sec. 9, page 8, line 9 by inserting after "($500).: Each sale of one ticket in violation of this section shall be a separate offense.

On the question,

Will the House agree to the amendments offered by the gentleman from Lancaster, Mr. Miller?

The SPEAKER pro tempore. The Chair recognizes the gentleman from Lancaster, Mr. Miller.

Mr. MILLER. Mr. Speaker, the purpose of this amendment is to write into law a provision that we should sell tickets in denominations of 25 cents, 50 cents, and upwards.

The rationale for it is that the early history of lotteries showed that they were not successful in New Hampshire, New York and other places, but in New Jersey we discovered that the 50-cent ticket was, indeed, a boom to the state treasury and the lottery business.

I think Pennsylvania, for a change, ought to go New Jersey one better. I think we ought to say that we will sell tickets for a quarter, and while you may say, what can you get for a quarter today, it should not be lost on us that the lottery, when it passes, is going to be a source of great hope to people, and that hope will be that, for the price of a pack of cigaretes or less, they might have a chance, however slim, to better their lot. By reducing the price we will enable people of lower income to at least have that type of hope. That is the first amendment.

The second amendment is as a result of a call I had from Sergeant Latsha of the Pennsylvania State Police who detailed to me a problem in New Jersey with tickets being sold at above-regulated prices. The format there is to sell a ticket, a 50-cent ticket, for a dollar, and the shadowy figures who do this say, if you pay a dollar, we will double whatever you win. Someone in New Jersey, I am told, hit a winner—I do not know for how much—gave up the ticket to the shadowy figure and has not seen him since.

Our penalty provision in this bill calls for a $500 fine for selling tickets above the regulated price. My amendment would say that each sale of one ticket in violation of that section shall be a separate offense, leaving the penalty more in line with the possibility of the winnings. I might say that this is similar in nature to an amendment which passed the House relative to an air pollution bill sponsored by the gentleman from Philadelphia, Mr. Braig, because people were violating the law as the fine was so low they felt they could afford to do it.

I would ask support of the House for both of the amendments.

On the question recurring,

Will the House agree to the amendments offered by the gentleman from Lancaster, Mr. Miller?

The yeas and nays were required by Messrs. MILLER and PRENDERGAST and were as follows:

YEAS—175

Alexander
Allen, F. M.
Allen, W. W.
Anderson, J. H.
Anderson, S. A.
Arthurs
Barber
Bellomini
Bennett
Beren
Berkes
Berson
Bittle
Bixler
Blair
Bonetto
Braig
Brunner
Burkardt
Butera
Caputo
Cessar
Comer
Coppolino
Crawford
Crowley
Dager
Fox
Frankenburg
Gallagher
Gallen
Geesey
Geisler
Gekas
Gelfand
Gillette
Gleason
Gleeson
Good
Goodman
Greenfield
Gring
Halverson
Hamilton, J. H.
Hamilton, R. K.
Harrier
Haskell
Hayes, D. S.
Hill
Homer
Hopkins
Horn
Horner
Hovis
Kury
Laudadio
Lederer
Lee
Lehr
Lutty
Lynch, Francis
Lynch, Frank
Malady
Manbeck
Manderino
Mastrangelo
McClatchy
McCue
McCurdy
McGraw
McMonagle
Mebus
Melton
Miller
Moore
Morris
Moscrip
Mullen, M. M.
Mullen, M. P.
Myers
Needham
Ruane
Ruggiero
Rush
Ryan
Rybak
Saloom
Scanlon
Scheaffer
Schulze
Scirica
Seltzer
Semanoff
Shelhamer
Shelton
Sherman
Smith
Spencer
Stemmler
Stone
Stout
Sullivan
Taylor
Thomas
Toll
Ustynoski
Valicenti
Vann

Davis, D. M.
Davis, E. B.
Davis, R. O.
DeMedio
Dininni
Dombrowski
Dorsey
Doyle
Early
Eckensberger
Englehart
Fawcett
Fee
Fenrich
Fischer
Foor
Foster
Hutchinson
Irvis
Johnson, G. R.
Johnson, J. J.
Jones
Kahle
Katz
Kaufman
Kelly, A. P.
Kelly, J. B.
Kennedy
Kester
Klepper
Klunk
Knepper
Kolter
Kowalyshyn
Novak
O'Brien
O'Connell
O'Donnell
Pancoast
Parker, B. L.
Pezak
Plevsky
Piper
Prendergast
Rappaport
Renninger
Renwick
Reynolds
Rieger
Ritter
Rowe
Walsh
Wansacz
Wargo
Weidner
Westerberg
Wilson
Wilt, R. W.
Wilt, W. W.
Wojdak
Worrilow
Wright
Yahner
Yohn
Zearfoss
Zimmerman
Zord

NAYS—20

Coyne
Dreibelbis
Fryer
Hayes, S. E.
Hepford
Hetrick
Kistler
LaMarca
Meholchick
Murtha
O'Pake
Parker, H. S.
Savitt
Schmitt
Shane
Shuman
Shupnik
Steele
Wise
Zeller

NOT VOTING—7

Frank
Letterman
Martino
Perry
Wells
Williams
Fineman, Speaker

So the question was determined in the affirmative and the amendments were agreed to.

On the question recurring,
Will the House agree to the bill on second consideration?
Mr. HOMER requested and obtained unanimous consent to offer the following amendments, which were read:

Amend Sec. 5, page 3, line 13 by inserting after "lottery.": In particular, with a view toward (1) raising State revenues and (2) curtailing the largest source of illegal gambling operations in Pennsylvania, thereby furthering the stated purpose of this act, it shall study the possibility and feasibility of instituting a daily lottery operated on principles similar to the existing illegal "numbers" or "policy" game or racket; and to such ends, it shall submit to the Governor, secretary and General Assembly by April 1, 1972 a report covering all factors involved in the operation of such a daily lottery.

On the question,
Will the House agree to the amendments offered by the gentleman from Allegheny, Mr. Homer?

The SPEAKER pro tempore. The Chair recognizes the gentleman from Allegheny, Mr. Homer.
Mr. HOMER. Thank you, Mr. Speaker.
Mr. Speaker, these amendments would ask or mandate that the lottery commission which is being created by this bill study the possibility and feasibility of instituting a daily lottery operated on the principles similar to the now existing illegal numbers or policy game or racket here in Pennsylvania.

Two years ago, I introduced into the House a resolution asking for a special House committee to study this possibility. I feel very strongly that if we are going to curtail organized crime, which gets most of its money from the illegal numbers business in Pennsylvania and then takes this money and uses it for entering into and expanding the narcotics traffic, for expanding prostitution and also for having front businesses, which then compete unfairly with legitimate businesses—because these front businesses do not really have to make a profit, they drive legitimate businesses of the same type out of business—we have to get in and try to stop the illegal numbers business. The sooner that our state can get into such a daily lottery which would knock out the illegal numbers business, the sooner we can stop organized crime. I think the more money we would be able to put into the state coffers quite possibly could add to the reduction of the income tax and possibly other taxes in Pennsylvania.

Very simply, this amendment would require that the commission conduct such a study of the feasibility of a daily lottery and report back to the General Assembly by April 1, 1972 the possibility and feasibility of instituting such a lottery. The reason the April 1 date is there is so that we would have time to see if it is feasible, to see how much money it could return to the state, and we could figure it into our budget of the next fiscal year of July 1, 1972.

I would respectfully ask the members of the House to please vote for this amendment.
Thank you.

On the question recurring,
Will the House agree to the amendments offered by the gentleman from Allegheny, Mr. Homer?

The years and nays were required by Messrs. HOMER and PRENDERGAST and were as follows:

YEAS—53

Anderson, S. A.
Arthurs
Barber
Bellomini
Berkes
Berson
Blair
Breig
Brunner
Caputo
Comer
Coppolino
Crawford
Crowley
Davis, D. M.
Davis, E. B.
DeMedio
Dombrowski
Early
Eckensberger
Fee
Geisler
Gleeson
Greenfield
Hamilton, J. H.
Homer
Hopkins
Irvis
Johnson, J. J.
Katz
Laudadio
Lutty
Malady
Mastrangelo
McMonagle
Meholchick
Mellon
Novak
O'Brien
Plevsky
Rappaport
Renwick
Ritter
Ruggiero
Rybak
Savitt
Shupnik
Stout
Sullivan
Taylor
Wansacz
Wojdak
Zeller

NAYS—141

Alexander
Allen, F. M.
Allen, W. W.
Anderson, J. H.
Bennett
Beren
Bittle
Bixler
Bonetto
Burkardt
Butera
Cessar
Coyne
Dager
Davis, R. O.
Dininni
Dorsey
Doyle
Dreibelbis
Englehart
Fawcett
Fenrich
Fischer
Foor
Foster
Fox
Frankenburg
Fryer
Gallagher
Gallen
Geesey
Gekas
Gelfand
Gillette
Gleason
Good
Goodman
Gring
Halverson
Hamilton, R. K.
Harrier
Haskell
Hayes, D. S.
Hayes, S. E.
Hepford
Hetrick
Hill
Horn
Horner
Hovis
Hutchinson
Johnson, G. R.
Jones
Kahle
Kaufman
Kelly, A. P.
Kelly, J. B.
Kennedy
Kester
Kistler
Klepper
Klunk
Knepper
Kolter
Kowalyshyn
Kury
LaMarca
Lederer
Lee
Lehr
Lynch, Francis
Lynch, Frank
Manbeck
Manderino
McClatchy
McCue
McCurdy
McGraw
Mebus
Miller
Moore
Morris
Moscrip
Mullen, M. M.
Mullen, M. P.
Murtha
Myers
Needham
O'Connell
O'Donnell
O'Pake
Pancoast
Parker, B. L.
Parker, H. S.
Pezak
Piper
Prendergast
Renninger
Reynolds
Rieger
Rowe
Ruane
Rush
Ryan
Saloom
Scanlon
Scheaffer
Schmitt
Schulze
Scirica
Seltzer
Semanoff
Shane
Shelhamer
Shelton
Sherman
Shuman
Smith
Spencer
Steele
Stemmler
Stone
Thomas
Toll
Ustynoski
Valicenti
Walsh
Wargo
Weidner
Westerberg
Wilson
Wilt, R. W.
Wilt, W. W.
Wise
Worrilow
Wright
Yahner
Yohn
Zearfoss
Zimmerman
Zord

NOT VOTING—8

Frank
Letterman
Martino
Perry
Vann
Wells
Williams
Fineman, Speaker

So the question was determined in the negative and the amendments were not agreed to.

On the question,
Will the House agree to the bill as amended on second consideration?
It was agreed to.

Ordered, That the bill as amended be prepared for third consideration.

STATEMENT BY MAJORITY LEADER

The SPEAKER pro tempore. The Chair recognizes the majority leader.

Mr. IRVIS. Mr. Speaker, there are other amendments to be offered, but I wonder if the gentlemen who have amendments to offer will consider this.

Senate bill No. 618 has now been amended three different times. If, in fact, we do pass it, as I anticipate we probably shall, it would then go into a conference committee. It is my proposal that those amendments which have not yet been defeated by the House will be offered to the conferees and we shall ask them to consider those amendments in drawing up the final bill.

Now, of course, I cannot say what would be accepted and what would not be. If the gentlemen who have amendments to offer insist on offering them and, if they are defeated, then, of course, we shall not offer them to the conferees. If they do not offer the amendments and take the time of the House today, we will offer the non-acted-on amendments to the conferees for their consideration.

I assume by the silence that that means consent.

Mr. Speaker, will you proceed with the calendar?

Agreeable to order,

The House proceeded to third consideration of **House bill No. 977, printer's No. 1083,** entitled:

An Act amending the act of July 8, 1968 (Act No. 150), entitled "A supplement to the act of March 10, 1949 (P. L. 30), entitled 'An act relating to the public school system including certain provisions applicable as well to private and parochial schools; amending, revising, consolidating and changing the laws relating thereto,' providing for the establishment of administrative units comprised of certain school districts," further providing for obligations of former school districts.

On the question,
Will the House agree to the bill on third consideration?

Mr. DOYLE requested and obtained unanimous consent to offer the following amendments, which were read:

Amend Title, page 1, line 8, by inserting after "districts,"": providing for postponement of selection of interim operating committees of certain school districts and

Amend Sec. 1, page 1, line 12, by striking out "Section" and inserting: Subsection (b) of section 8 and section

Amend Sec. 1, page 1, line 18, by striking out "is" and inserting: are

Amend Bill, page 1, by inserting between lines 19 and 20: Section 8. Incumbent School Directors and Interim Operating Committee.—* * *

(b) On or before the fifteenth day of February immediately preceding the date of establishment, such incumbent school directors of the component school districts shall be called into convention by the county superintendent of schools and shall select by majority vote an interim operating committee composed of nine (9) incumbent school directors. In selecting the interim operating committee, the incumbent school directors shall take into consideration the principle of proportionate representation according to population. The decision of the convention in selecting the interim operating committee shall be final. Three (3) of the members of the interim operating committee shall be selected for a term expiring on the first Monday of December, 1969, three (3) for a term expiring on the first Monday of December, 1971, and three (3) for a term expiring on the first Monday of December, 1973. In the event an incumbent director is selected for a term on the interim operating committee which would expire later than the term for which he was elected as a school director, he shall serve only until the end of his term for which he was elected as a school director. The school directors elected at the municipal elections held in November, 1969, and thereafter, shall be elected for six (6) year terms and shall take the place of the appointed members of the board of school directors of the newly established school district as their terms expire. The members of the interim operating committee shall become and shall serve as the board of school directors of the school district on and after the date of establishment: Provided, however, That in the event any convention failed to meet and select an interim operating committee less than three (3) months prior to July 1, 1971, then the convention may postpone selection of the interim operating committee but shall meet and select such committee on or before December 15, 1971.

* * *

On the question,
Will the House agree to the amendments?

The SPEAKER pro tempore. The Chair recognizes the gentleman from Delaware, Mr. Doyle.

Mr. DOYLE. Mr. Speaker, the purpose of this amendment is simply to allow the postponement of the selection of the Interim Operating Committee, which was mandated under Act No. 150.

The clear intent of Act No. 150, when it was passed, was to begin the selections of an Interim Operating Committee for the new school districts, as they would become, and to begin that selection on February 15. This is stated right in the act.

The act also allows for certain appeals to be made to the county school boards, to the state school boards and to court. Because certain districts avail themselves of the opportunity to contest the redistricting, there are approximately six newly made units in Pennsylvania that simply do not have time to select the Interim Operating Committee and to work out the problems.

I will quote the following resolution from my own school district as to the reasons why:

> A proper budget for the new district cannot now be prepared with consideration of the needs and facilities of the three districts to be combined, elimination of over-lapping, making provisions for uniformity of salaries and wages, and the imposition of fair and uniform taxation. . . .
>
> There is not sufficient time remaining to consider and select administrative personnel and to allocate teachers, pupils and other employees in the new School District.
>
> There is insufficient time for conference and agreements upon the subjects of school taxation or to comply with Section 672.1 of the Public School Code of 1949, as amended by Act 154 approved July 8, 1970, which amendment relates to the imposition of school taxes in a school district composed of more than one municipality.

Furthermore, unless this relief is allowed, the election of the school board candidates in this fall's election would be meaningless.

Amend Sec. 12, page 9, lines 16 to 30 and page 10, line 1 by striking out "All moneys remaining after payment of" in line 16 and all of lines 17 to 30, page 9, and line 1 of page 10

Amend Sec. 12, page 10, lines 8 and 9 by striking out both of said lines and inserting: (3) For payments to the counties and the municipalities of the Commonwealth; and

Amend Sec. 12, page 10, by inserting between lines 12 and 13: (c) On or before June 1, 1972, and annually thereafter, so much of the moneys in the State Lottery Fund not needed for (1). (2) and (4) above, shall be paid to the counties in the proportion which the gross prices of the tickets or shares sold in each such county bears to the gross prices of the tickets or shares sold in all counties.

(d) On or before June 15, 1972, and annually thereafter. one-half of the moneys paid to each county shall be distributed to the cities, boroughs, incorporated towns and townships within the county in the proportion which the total tax receipts of each municipality within the county bears to the total tax receipts of all municipalities within the county.

On the question,
Will the House agree to the amendments?

The SPEAKER. The Chair recognizes the gentleman from Philadelphia, Mr. Savitt.

Mr. SAVITT. Mr. Speaker, I offer an amendment to Senate bill No. 618, which is the lottery bill and which, I think, is a bill that is very much needed in this Commonwealth and a bill which is sought after by our constituents, wherever they may be throughout the state.

In its present form, Senate bill No. 618 provides that the receipts, the profits from the lottery, go and are designated for tax relief for the elderly.

Tax relief for the elderly is already mandated in the amount of $60 million by an act of March of 1971, being Act No. 3.

In the amendments which I propose, the receipts and profits from the lottery will be distributed not as tax relief for the elderly, but will be distributed to the counties throughout the Commonwealth in proportion to the amount of the gross sales of lottery tickets in that county. Then each county will distribute to one-half of the amount received by that county to the municipalities within that county.

This fund would be held, and on June 1, 1972, it would be distributed to the counties, and on June 15, 1972, distributed to the municipalities within each county.

I have examined these amendments over the last several days and I have come up with the unalterable opinion that this way of designating the fund really is the fairest and best way to utilize the money which we receive from this lottery.

I point out first that there will be no deprivation to tax relief for our senior citizens, since by Act No. 3 it is mandated that $60 million be provided for this purpose starting with fiscal year 1972-73.

Under the amendment which I propose, the benefit will be derived in each county depending upon the amount of tickets sold. In other words, the citizens of the county will get back in proportion to what they spend for the lottery tickets. By so designating the fund in this way, the money will be placed when it is needed most and where it is needed most—now and in the local communities.

Each one of you has a constituency that can be nothing but pleased with this designation, because they will be purchasing tickets and they will know that the money which they are spending will be going back to the local communities.

Who can best determine where the money is need most but the governmental agencies of each local community? The money will go back to local communiti to aid them in police protection, fire protection, sewa disposal, trash collection, wherever it is needed. Th is an innovation, really, in the field of revenue sharin where we can put this concept, which we all espous which is espoused by the Mayors' Council of Pennsy vania, into operation in a limited way.

For once, Pennsylvania can be first. Pennsylvan always seems to be behind our sister states. We we not the first to pass a lottery bill or consider a lotte bill, and while New Jersey and other states are reapin the benefits from it, we are still debating the lotte bill. We were one of the last to have pari-mutuel racin which was a source of revenue. Let us be first in th field of revenue sharing, where we can take mon here from a new source of revenue and give it back the local communities on the basis of where each citiz spends the money.

I want to point out that the mayors of 10 of the large cities of Pennsylvania appeared before the House Appr priations Committee last week and each of them w totally committed to the concept of revenue sharin Each of them supports the idea that the money shou go back to the local communities where it is needed.

I think that this amendment, as it is proposed her has every virtue. There is nothing about it tha not fair and equitable. It is something which is want and needed by your constituents in your own legislati districts. It is an opportunity to quickly enact a lotte and let the people of Pennsylvania know that they a going to receive some immediate benefit from it.

I urge your support for this amendment.

The SPEAKER. The Chair recognizes the gentlema from Lehigh, Mr. Ritter.

Mr. RITTER. Mr. Speaker, may I interrogate the gentl man from Philadelphia, Mr. Savitt, please?

The SPEAKER. Will the gentleman from Philadelphi Mr. Savitt, permit himself to be interrogated?

Mr. SAVITT. Yes, I will.

The SPEAKER. The gentleman from Lehigh, Mr. Ritte may proceed.

Mr. RITTER. Mr. Speaker, the gentleman says that th money will go back to the counties based on the numb of tickets sold within the county and that this. in effec is a form of revenue sharing. Then he alludes to th fact that the mayors of the urban areas have come and said that they desperately need the money.

Will the gentleman please look at his amendment the bottom of the page, subsections (c) and (d), where is true that one-half of the money will go back to th counties based on the number of tickets that are sol That is in subsection (c). But under subsection (d), th allocation by the county to the municipalities is not mad on the basis of the number of tickets sold in that mu nicipality, but rather on the basis of the proportion whic the total tax receipts of each municipality within th county bears to the total tax receipts of all municipaliti within the county. Will the gentleman explain to me wh that was done that way and why we did not just sen the money back to the municipalities based on the num ber of tickets that they sold?

Mr. SAVITT. Mr. Speaker, first, let me say, of course, that with respect to the county, as the gentleman states, it is done equally throughout the Commonwealth, being disbursed proportionately by county. One-half of that fund remains in the county. The remaining one-half is distributed to the municipalities within the county in relation to the total tax receipts of all municipalities within that county.

This does give a municipality in a county the opportunity to share at least somewhat, although perhaps even infinitesimally or not very much, regardless of whether any receipts for the sale of lottery tickets were made in that particular municipality.

The reason for this is that we do think there may be more sales in certain municipalities than others, dependent on the tenor of the population, the type of people who live there and the type of businesses that are there, and although we want the sharing to be proportionate to the sale, we do not want anyone to be totally prevented from obtaining any benefits from this lottery bill. That was the intent in this portion of the amendment.

Mr. RITTER. Thank you, Mr. Speaker.

Mr. Speaker, I rise to oppose the amendment for several reasons, but one is that I am concerned very much about this business of revenue sharing.

My legislative district is part of the city of Allentown, which has roughly half the population of Lehigh County. What we are saying—and it is conceivable under this bill—is that three-fourths of the tickets or better sold in Lehigh County might very well be sold within the city of Allentown. When it comes time to share the proceeds of this lottery, Allentown, which provides the services to many municipalities surrounding Allentown, will certainly not even get its fair share of the revenue. It would not get even one-half of the half that the county has to give to all the other municipalities.

I do not think that this is revenue sharing at all, Mr. Speaker, and I would oppose it on that basis and I oppose it primarily because I think the proceeds from a state lottery really and truly ought to go to the general fund.

The SPEAKER. The Chair recognizes the gentleman from Washington, Mr. DeMedio.

Mr. DeMEDIO. Mr. Speaker, I rise in opposition to this amendment for a number of reasons.

First of all, we are taking a Senate bill, the intent and purpose of which was tax relief for the elderly. It seems to me that we ought only to change bills that are defined for a certain purpose with hesitancy and reluctancy.

Without going too deeply into the merits of revenue sharing, it seems to me that any bill of this stature, any bill of this importance should stand or fall on its own. It should be a well-defined, detailed bill. It should have some accountability. All of us well know that revenue sharing often lacks the responsibility by those taxing groups that share in that distribution of funds in the way those moneys are used.

I say that a serious step such as revenue sharing should not be taken without a good bit of serious consideration. It should not be done in a haphazard manner by means of an amendment. Then, too, it would seem to me that at a time when the Commonwealth of Pennsylvania is faced with the fiscal dilemma which we are now faced with, we should hesitate to assume additional fiscal burdens, additional tax burdens, and start a new program of fiscal revenue sharing without a long hard look at that.

I also want to say that as far as this bill goes—and I have no pride of authorship because, actually, my amendment which was introduced the other day merely restates the Senate's proposition that this money would be used for tax relief for the elderly—we are committed for $60 million for tax relief for this year, yet, the payment of this tax relief for this year is deferred to the 1972-73 budget. What I am saying is that benefits that we give in this year, we should pay this year. We should not defer—

QUESTION OF PARLIAMENTARY INQUIRY

The SPEAKER. The Chair recognizes the gentleman from Philadelphia, Mr. Vann. For what purpose does the gentleman rise?

Mr. VANN. I rise to a question of parliamentary inquiry.

The SPEAKER. The gentleman will state it.

Mr. VANN. Mr. Speaker, is the gentleman discussing the bill or the amendment? I think he is discussing the bill.

The SPEAKER. The gentleman will endeavor to confine his remarks to the amendments.

Mr. DeMEDIO. This amendment would mean that we would be deferring the tax relief of $60 million, which is set aside and allocated for tax relief, to the 1972-73 fiscal budget period. I say that it behooves us, at a time when we are faced with the tax problem that this Commonwealth is faced with, to use this money for a purpose to which we have already been committed, that we ought to use it for tax relief. We ought to use as much of it as the $60 million which has already been committed, and by doing this, we will not only ease our present fiscal problem, but we will make it easier for us to set up a budget for 1972-73.

In conclusion, Mr. Speaker, I ask all the members on both sides of the aisle to vote in opposition to this amendment.

The SPEAKER. The Chair recognizes the lady from Chester, Mrs. Crawford.

Mrs. CRAWFORD. Mr. Speaker, would the gentleman from Philadelphia, Mr. Savitt, consent to be interrogated?

The SPEAKER. Will the gentleman from Philadelphia permit himself to be interrogated?

Mr. SAVITT. Yes, I will.

The SPEAKER. The lady may proceed.

Mrs. CRAWFORD. Mr. Speaker, according to the provisions of this amendment, the municipality in which the tickets for the lottery were sold would receive a certain amount of this. In this case, would it not be true that the city of Philadelphia would receive a great deal of the proportionate share of the revenue from the lottery?

Mr. SAVITT. Mr. Speaker, in answer to the lady's question, I think we could safely assume that Philadelphia, being the most populous county in the Commonwealth and where more business is conducted than in any other county or city in the Commonwealth, would probably sell more lottery tickets, and, therefore, Philadelphia would probably obtain, applying this proportionate formula, more money from the lottery than any other county. However, I would estimate that if 20 percent of the tickets are sold in Philadelphia, then Philadelphia would obtain 20 percent of the yield.

I think this is certainly a fair concept. If the people of Philadelphia spend the money and buy the tickets, then the money goes back to them for services provided by their municipal government. If the people in Mrs. Crawford's county purchase these lottery tickets, and I am sure they will, then her constituents will receive a proportionate share, and I think that they would very much like to know that the money raised by their purchases goes back to help them in the municipal services there.

Mrs. CRAWFORD. Mr. Speaker, I understand what the gentleman just said and I agree with his conception of this.

I also want to ask, Mr. Speaker, if it is not true that a lot of the commuting public from counties such as Chester, Montgomery, Bucks, and so forth, might not buy their lottery tickets in the city of Philadelphia also, and, therefore, would they not help the city of Philadelphia benefit from this concept?

Mr. SAVITT. Mr. Speaker, of course, no one can safely say where an individual is going to buy a lottery ticket. However, I would assume that most people would buy them in the communities in which they reside and work. I think areas such as Chester will be adequately provided with places to purchase lottery tickets, and I think although there could be moderate inequities resulting from it, largely the people in a particular county will purchase their tickets within this county.

The overall basis is one of fairness. I do not think there is any piece of legislation or any concept that can be totally and completely fair in every respect, but overall and overwhelmingly, I think this is a good and proper amendment.

Mrs. CRAWFORD. Mr. Speaker, in the case of what Mr. Savitt just said, then I would assume that Philadelphia could conceivably receive a lion's share of this proposal from the lottery, both through the fact that Philadelphia is the largest city in the Commonwealth and the second factor being that we do have a lot of commuters who work in Philadelphia and could conceivably buy their tickets there rather than in the county in which they reside. Therefore, I ask, if this is the case, could it conceivably come about that the city wage tax in Philadelphia could be reduced as a factor regarding this amendment?

Mr. SAVITT. Mr. Speaker, I cannot answer what help will be given to the citizens of Philadelphia or any other community. I do hope the help will be substantial to all citizens in all of the communities.

I would like to point this out, though, to the lady: I think you may find also that there are many people who live in Philadelphia County who work in factories in surrounding counties. I know there are many factories and places of employment where large numbers of people are employed in suburban counties where there would be places of easy access to purchase lottery tickets. It could work both ways. I estimate that Philadelphia would probably receive and sell 20 percent of the lottery tickets throughout the Commonwealth.

Mrs. CRAWFORD. In other words, Mr. Speaker, then, conceivably the wage tax in Philadelphia could not be affected by the revenue sharing accrued by this amendment.

Mr. SAVITT. Mr. Speaker, I really cannot answer it. I would tend to think it would not. If it could be, that would be fine. It would depend upon how much money the lottery brings in statewide, and if it brings enough in, local taxes in all communities would be helped or reduced.

Mrs. CRAWFORD. Thank you, Mr. Speaker.

The SPEAKER. The Chair recognizes the gentleman from Mercer, Mr. Bennett.

Mr. BENNETT. Would the gentleman, Mr. Savitt, submit to further interrogation?

The SPEAKER. Will the gentleman permit himself to be interrogated?

Mr. SAVITT. Yes, Mr. Speaker.

The SPEAKER. The gentleman may proceed.

Mr. BENNETT. First of all, Mr. Speaker, I am in favor of the concept of the lottery. In the part of Mercer County that I represent, we have two third-class cities, probably seven boroughs and about 27 townships. Could the gentleman tell us how each one of these local municipalities is going to get their share of the money, their share of the half of the fund?

Mr. SAVITT. Well, Mr. Speaker, the amendment provides that each one of these municipalities would receive their share, that is, one-half of the share of that particular county, in proportion to the total tax receipts of each municipality within the county which it bears to the total tax receipts of all the municipalities within the county—in other words, in proportion to the tax receipts of that particular municipality.

And, Mr. Speaker, if I may, while answering this question, there is an answer also to the question raised by the gentleman, Mr. Ritter. He said that the distribution in his county, although three-quarters of the lottery tickets may be sold in Allentown, would be distributed not in proportion to the amount sold but in proportion to the tax receipts. I point out to him that Allentown must have, proportionately, the lion's share of the tax receipts in the county in which it is, and one-half of the returns go to the county as a whole. I think under this concept, Allentown—if they sold a substantial number of lottery tickets—would reap the benefit of it.

Mr. BENNETT. Well, Mr. Speaker, that bears out my thinking. I am just wondering who in these very small townships within my county—and I am sure in many of the other counties—really is going to police this thing and who is going to know how much the total tax receipts are of each municipality within the county. How is this figured, Mr. Speaker?

Mr. SAVITT. Mr. Speaker, I think the gentleman is asking now about the actual mechanism of the operation. The bill provides that there is a commission and the commission advises the Secretary of Revenue. I think the Secretary of Revenue would have to set forth the procedures, but I do not think it will be difficult to determine what the tax receipts of a particular municipality are. I think this is something that is very easily documented and very readily available.

Mr. BENNETT. I thank the gentleman.

The SPEAKER. The Chair recognizes the gentleman from Allegheny, Mr. McMonagle.

Mr. McMONAGLE. Mr. Speaker, I rise to oppose this amendment on the basis of my personal opinion that when we first talked about a lottery, it was my conception, at least, that it was to be exclusively for senior citizens. I am well aware that we have appropriated $60 million and I am also aware of the provisions as to how it was appropriated. It comes to my mind that we were very careful to say, when we included widows with the senior citizens, that in the event the $60 million was not enough, then we would reduce relief proportionately. I oppose this amendment on that basis, because although the $60 million is now allotted from the general fund, nobody knows what a lottery will bring in. It is conceivable that it could bring far less or far more than what we have allotted. In the event that it should bring more, then I think it should be used for the purpose we talked about when the $60 million was appropriated—refunding this money to these people in 1972. It well could be that there is not sufficient money there.

In conclusion, I would just like to say this: This type of amendment creates a new program at a time when we are waiting for a budget and a tax program, and this is where we extract these dollars from business and the people. I think we had better be very careful before we get into anything new.

Thank you very much, Mr. Speaker.

The SPEAKER. The Chair recognizes the gentleman from Lehigh, Mr. Ritter.

Mr. RITTER. Very briefly, Mr. Speaker, the gentleman, Mr. Savitt, referred to the fact that Allentown would get its proportionate share, and I disagree. Allentown has not quite half the population of the county. We have the state hospital, we have the employment security office, we have the courthouse, we have the highway district office. We have most of the services provided by state government and the county government located within the city of Allentown for which there are no taxes paid. There is a township in Lehigh County which is the beneficiary of a $60-million industrial complex which is going up, with relatively little population in the township.

Again I say, when you start distributing moneys that are paid for by people who live and work in the city of Allentown on the basis of tax receipts paid by the municipality to the county, you are not going to give Allentown its fair share. Believe me, Mr. Speaker, of all the municipalities in Lehigh County, Allentown is in the worst financial shape of them all, as are most of the urban areas and not some of the small rural townships. I say if this is the way the amendment is going to go, I certainly would have to oppose it, because Allentown would never get its fair share. We are never going to solve the problem by doing it in this fashion.

The SPEAKER. The Chair recognizes the gentleman from Philadelphia, Mr. Savitt.

Mr. SAVITT. Mr. Speaker, I would like to answer some of the arguments in opposition which were set forth on this floor, because I think that this is an amendment to a bill that really is a step forward.

First, Mr. Ritter argues on the specific situation of Allentown, and righfully so. That is his constituency. The point that he does make is that Allentown has problems and Allentown needs help and Allentown, just as all the other cities throughout the Commonwealth, should have some funds that should be shared so that they can use them to help their problems. He is arguing that this bill provides for an imperfect distribution. I say, and I said before in answer to the lady's question, there is no bill that is perfect; there is no bill that is not subject to future consideration, but the concept here and the basic idea of it is something that we need and that we need desperately.

There has been an argument presented that we should not tread now because we have a fiscal dilemma and that we do not have a budget and we have not enacted taxes, so here we are taking money and instead of putting it into the general fund, we are sending it back to the communities.

I say that we have to recognize, and we should recognize it now, that the problems of this Commonwealth are in those communities. If we take some money and we make the step forward to give the local people something to aid them in their problems, we are going to be saving money in the long run.

Let us not delude ourselves to think that we are not going to provide these services and not send this money back in some way. Let us send it back in a fair and equitable way. Let us use this device to try a great concept.

It was suggested here that if we are going into revenue sharing, we should do it after very careful consideration, after elaborate studies, because it is an important concept. I say to you, Mr. Speaker, that there are many, many studies in this House and not enough action.

Here is a vehicle where you can test the concept, where you can take new revenue, money that is coming in. Our people want it; our people want the services; our people want to know that the money is going back to them.

Pass this bill with this amendment and do the right thing first, for once.

The SPEAKER. The Chair recognizes the gentleman from Philadelphia, Mr. Gelfand.

Mr. GELFAND. Mr. Speaker, this is really a golden opportunity for us because this is a brand-new fund, virtually a windfall that we are going to create. The only argument we have had so far in connection with this fund is how should it be distributed, because actually we have never had it in existence before.

Anything that we have done insofar as relief for the elderly, any other questions we have had about distribution of revenues have consistently dealt with tax measures and tax revenues which we have constructed to meet them or tax funds which we had available. Even the question of aid to the elderly, initially, did not hinge upon this legislation; it hinged upon general fund revenues. And whether or not we considered a lottery bill, we would have made that distribution or made those funds available for tax relief for the elderly, so locking that relief to this legislation is not particularly germane. What this does is offer us a real opportunity to be innovative and to do something which we have not dreamt of doing before, specifically because it is based upon a fund which has never been in existence and of which we do not know the entire content.

What we are proposing to do is provide aid to communities that need aid at basically the least expensive way and at the least cost to the Commonwealth from funds which are going to be created by an absolutely brand-new program.

Last week we had Appropriations Committee meetings at which we heard mayors from cities throughout the Commonwealth beseech us to find a way to give them some money, primarily because they are in dire need and they can see their own communities going down into the sink hole because they cannot raise the wherewithal to meet their requirements. We on the Appropriations Committee listened and then, afterwards, could only tell these mayors that the overall situation in this Commonwealth would seemingly preclude our being able to help their needs.

This is an opportunity at no real new cost to this Commonwealth to find a way to distribute some funds whether they are large or small back to these communities in a test-like fashion. If it helps them, all well and good. If it does not help them, at least we have not really lost anything and we could retrace our course and make a new way of distribution. But if it is helpful to them, it may give us the exact example and the exact way for us to do something further on that score in the future.

For heaven's sake, let us tread new areas; let us find new ways to help communities. When they are available, let us not just push them aside lightly because we are anxious to get on with the other business of recessing for the day and anxious to get on to do business in the same old hackneyed way.

Let us be a little more daring at the present time and vote for this amendment and maybe we will have trod new paths in a worthwhile way, Mr. Speaker.

On the question recurring,
Will the House agree to the amendments?

The yeas and nays were required by Messrs. SAVITT and RITTER and were as follows:

YEAS—63

Andersen, S. A.
Barber
Bennett
Berson
Blair
Bonetto
Braig
Brunner
Caputo
Comer
Coppolino
Crowley
Davis, D. M.
Davis, E. B.
Englehart
Geisler
Gelfand
Gleeson
Greenfield
Hamilton, J. H.
Hamilton, R. K.
Hutchinson
Johnson, J. J.
Katz
Kaufman
Kelly, A. P.
Kester
Kolter
Laudadio
Lederer
Lynch, Francis
Lynch, Frank
Manderino
Mastrangelo
Meholchick
Mullen, M. M.
Mullen, M. P.
Myers
Needham
O'Brien
O'Donnell
Perry
Pezak
Plevsky
Prendergast
Rappaport
Renwick
Rieger
Rush
Ryan
Savitt
Scanlon
Shelton
Sherman
Sullivan
Toll
Vann
Wargo
Williams
Wojdak
Worrilow
Zearfoss

Fineman,
Speaker

NAYS—126

Alexander
Allen, F. M.
Allen, W. W.
Anderson, J. H.
Arthurs
Bellomini
Beren
Berkes
Bittle
Bixler
Burkardt
Butera
Cessar
Coyne
Crawford
Dager
Davis, R. O.
DeMedio
Dininni
Dombrowski
Doyle
Dreibelbis
Early
Eckensberger
Fawcett
Fee
Fischer
Foor
Foster
Fox
Frank
Frankenburg
Fryer
Gallen
Geesey
Gekas
Gillette
Gleason
Good
Goodman
Gring
Halverson
Harrier
Haskell
Hayes, D. S.
Hayes, S. E.
Hepford
Hetrick
Hill
Hopkins
Horn
Horner
Hovis
Johnson, G. R.
Jones
Kahle
Kelly, J. B.
Kennedy
Kistler
Klepper
Knepper
Kowalyshyn
Kury
Lee
Lehr
Letterman
Malady
Manbeck
McClatchy
McCue
McCurdy
McGraw
McMonagle
Mebus
Miller
Moscrip
Murtha
Novak
O'Connell
O'Pake
Pancoast
Parker, B. L.
Parker, H. S.
Piper
Renninger
Reynolds
Ritter
Rowe
Ruane
Ruggiero
Rybak
Saloom
Scheaffer
Schmitt
Schulze
Scirica
Seltzer
Semanoff
Shane
Shelhamer
Shuman
Shupnik
Smith
Spencer
Steele
Stemmler
Stout
Taylor
Thomas
Ustynoski
Vallicenti
Walsh
Wansacz
Weidner
Wells
Westerberg
Wilson
Wilt, R. W.
Wilt, W. W.
Wise
Wright
Yahner
Yohn
Zeller
Zimmerman
Zord

NOT VOTING—13

Dorsey
Fenrich
Gallagher
Homer
Irvis
Klunk
LaMarca
Lutty
Martino
Melton
Moore
Morris
Stone

So the question was determined in the negative and the amendments were not agreed to.

On the question recurring,
Will the House agree to the bill on third consideration?
It was agreed to.

And said bill having been considered on three different days and agreed to,

On the question,
Shall the bill pass finally?

Agreeable to the provisions of the constitution, the yeas and nays were taken and were as follows:

YEAS—119

Allen, F. M.
Andersen, S. A.
Barber
Bellomini
Bennett
Beren
Berkes
Berson
Blair
Bonetto
Braig
Brunner
Butera
Caputo
Comer
Coppolino
Crowley
Dager
Davis, E. B.
DeMedio
Dombrowski
Doyle
Eckensberger
Englehart
Fawcett
Fee
Frank
Fryer
Gallagher
Gallen
Geisler
Gelfand
Gleason
Gleeson
Goodman
Greenfield
Hamilton, J. H.
Haskell
Hopkins
Hutchinson
Johnson, G. R.
Johnson, J. J.
Katz
Kaufman
Kelly, A. P.
Kester
Knepper
Kolter
Kowalyshyn
LaMarca
Laudadio
Lederer
Letterman
Lynch, Francis
Lynch, Frank
Malady
Manbeck
Manderino
Mastrangelo
McClatchy
McGraw
McMonagle
Mebus
Meholchick
Melton
Miller
Mullen, M. M.
Mullen, M. P.
Myers
Needham
Novak
O'Brien
O'Connell
O'Donnell
O'Pake
Parker, B. L.
Perry
Pezak
Plevsky
Prendergast
Rappaport
Renninger
Renwick
Reynolds
Rieger
Ritter
Ruggiero
Rush
Ryan
Rybak
Saloom
Savitt
Scanlon
Scirica
Semanoff
Shelton
Sherman
Shupnik
Stemmler
Stout
Sullivan
Toll
Ustynoski
Vallicenti
Vann
Walsh
Wansacz
Wargo
Weidner
Williams
Wilson
Wojdak
Worrilow
Wright
Yahner
Yohn
Zearfoss
Zord

Fineman,
Speaker

NAYS—73

Alexander
Allen, W. W.
Anderson, J. H.
Arthurs
Bittle
Bixler
Burkardt
Cessar
Coyne
Crawford
Davis, D. M.
Davis, R. O.
Dininni
Dreibelbis
Early
Fischer
Foor
Foster
Fox
Frankenburg
Geesey
Gekas
Gillette
Good
Gring
Halverson
Hamilton, R. K.
Harrier
Hayes, D. S.
Hayes, S. E.
Hepford
Hetrick
Hill
Horn
Horner
Hovis
Jones
Kahle
Kelly, J. B.
Kennedy
Kistler
Klepper
Kury
Lee
Lehr
McCue
McCurdy
Moscrip
Murtha
Pancoast
Parker, H. S.
Piper
Rowe
Ruane
Scheaffer
Schmitt
Schulze
Seltzer
Shane
Shelhamer
Shuman
Smith
Spencer
Steele
Taylor
Thomas
Wells
Westerberg
Wilt, R. W.
Wilt, W. W.
Wise
Zeller
Zimmerman

NOT VOTING—10

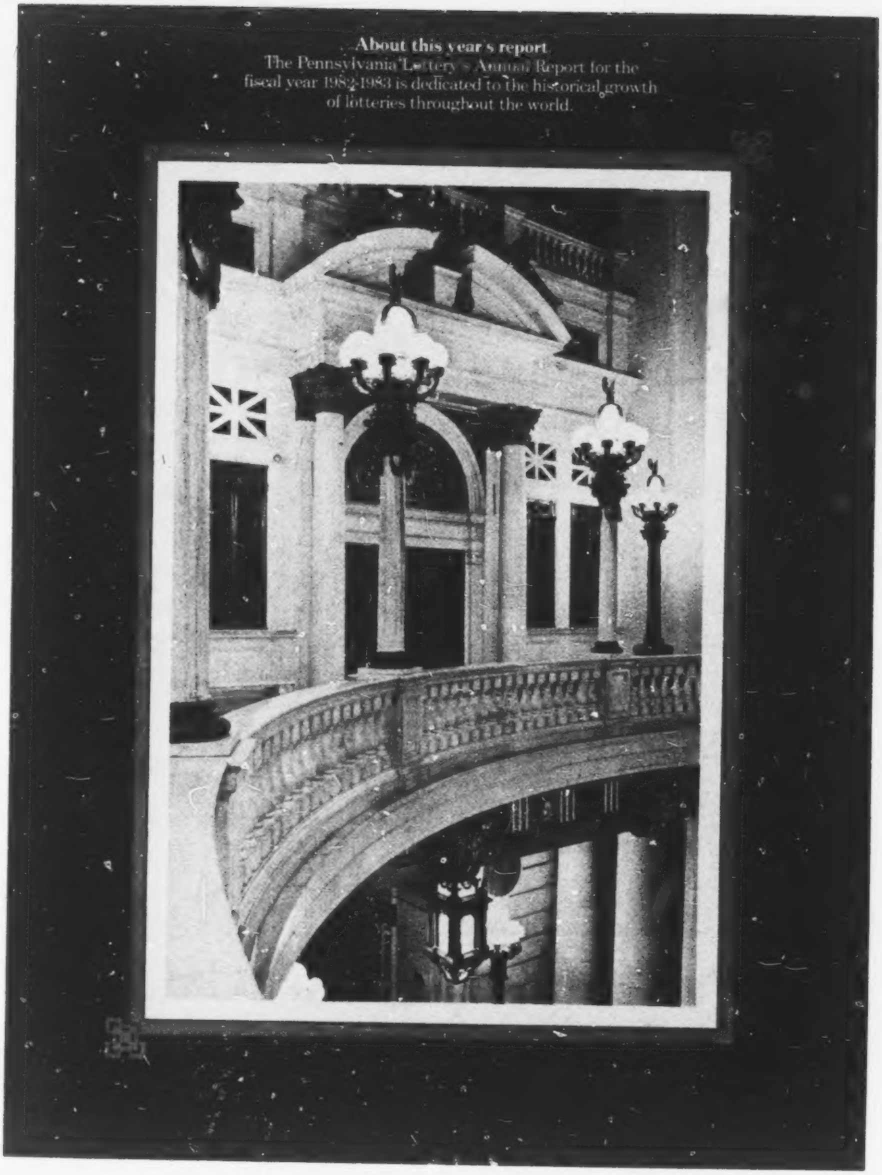
Dorsey
Fenrich
Homer
Irvis
Klunk
Lutty
Martino
Moore
Morris
Stone

The majority required by the constitution having voted in the affirmative, the question was determined in the affirmative.

Ordered, That the clerk return the same to the Senate

The Pennsylvania Lottery's 1982-1983 Annual Report

The Commonwealth of Pennsylvania
Department of Revenue



About this year's report

The Pennsylvania Lottery's Annual Report for the fiscal year 1982-1983 is dedicated to the historical growth of lotteries throughout the world.

To the people of Pennsylvania

The Pennsylvania Lottery's Annual Report for the fiscal year 1982-1983 is truly a testament to success. Since its inception eleven years ago, the Lottery has maintained a record of steady growth as it fulfills the mandate given it by the Pennsylvania General Assembly: to fully fund specific, worthwhile programs for Pennsylvania senior citizens.

In fulfilling that mandate, the Lottery has also become a financially secure member of the Pennsylvania business community, backed by its citizens and government.

In keeping with this eleven-year success story, this year's Annual Report will focus on the history of lotteries throughout the world. In the following pages we will give a brief history of lotteries, how they began, why they were started and what their proceeds were used for. Our purpose is to provide you, the reader, with a fuller understanding of lotteries in general, and your Pennsylvania Lottery in particular.

Along with this overview, the 1982-1983 Annual Report will also provide the reader with the important facts and figures pertinent to The Pennsylvania Lottery's operation in the past year.

In short, 1982-1983 witnessed another record year. Sales reached an unprecedented $885.4 million, $323.1 million more than last fiscal year, an increase of over 57 percent. Accordingly, our net profits rose to $355.4 million, or $128.3 million more than last year. As usual, all of those profits went into the special Lottery Fund which is used exclusively for senior citizen programs, such as property tax rebates, rent rebates, inflation dividends, transportation programs and senior citizen services administered under the auspices of the Department of Aging.

Record sales, of course, mean record prizes awarded. In fiscal 1982-1983, Lottery players enjoyed prizes totaling $439.9 million, or $165.8 million more than last year. All of this was accomplished with a bureau operating expense of only $29.7 million, just 3.4 percent of gross income.

Finally, as we look forward to another year of growth, we would like to thank the people of Pennsylvania for making The Pennsylvania Lottery, and its program of providing much-needed aid to senior citizens, something of which we can all be justly proud.

Dick Thornburgh
Governor

Jim Scheiner
James I. Scheiner
Secretary of Revenue

Lynn R Nelson
Lynn R. Nelson
Executive Director
Bureau of State Lotteries

Cover Photo:
Statue of Benjamin Franklin, University of Pennsylvania
In 1748, Benjamin Franklin sponsored a lottery to raise £3,000 for the defense of Philadelphia.

The State Capitol, Harrisburg
The State Capitol in Harrisburg, Pennsylvania. Here, in August 1971, legislation providing for a state lottery was approved.

Lotteries: Past and present

The history of lotteries, from their beginnings thousands of years ago to today, is both long and varied. Early records show that "lots" were used in Biblical times to determine divine will, divide land among tribes and to settle disputes. In some cases, political and religious leaders were selected in this way.

It was not until the Sixteenth Century that modern lottery practice as we know it today was begun. At that time, in cities like Venice, Florence and Genoa, merchants distributed prizes among their customers in order to facilitate sales. Meanwhile, in France, government lotteries were established to raise funds for a variety of causes, from road repairs to financing wars.

In America, lottery history dates from 1612 with the settlement of Jamestown, Virginia. Initially used to provide funds for relief of a variety of ills in the New World settlement, lotteries began to spread throughout the colonies as a means of financing the construction of churches, bridges and roads. By 1672 most county seat towns in the New World had operating lotteries.

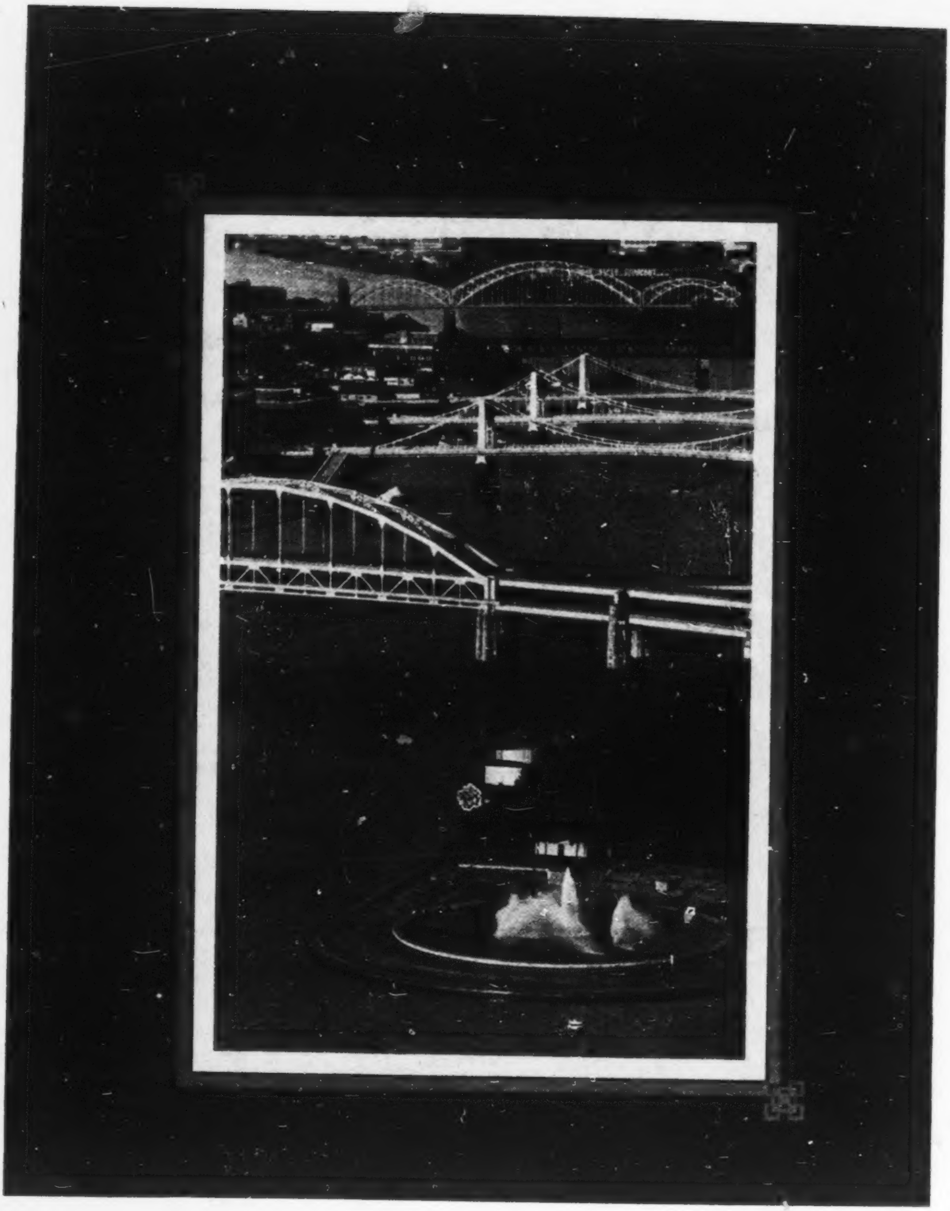
The first attempt at a national lottery was in 1776 when the Board of Treasury began selling lottery tickets in hopes of supporting the Colonial Army. This early lottery proved very successful, and a large reservoir of funds was provided for this purpose.

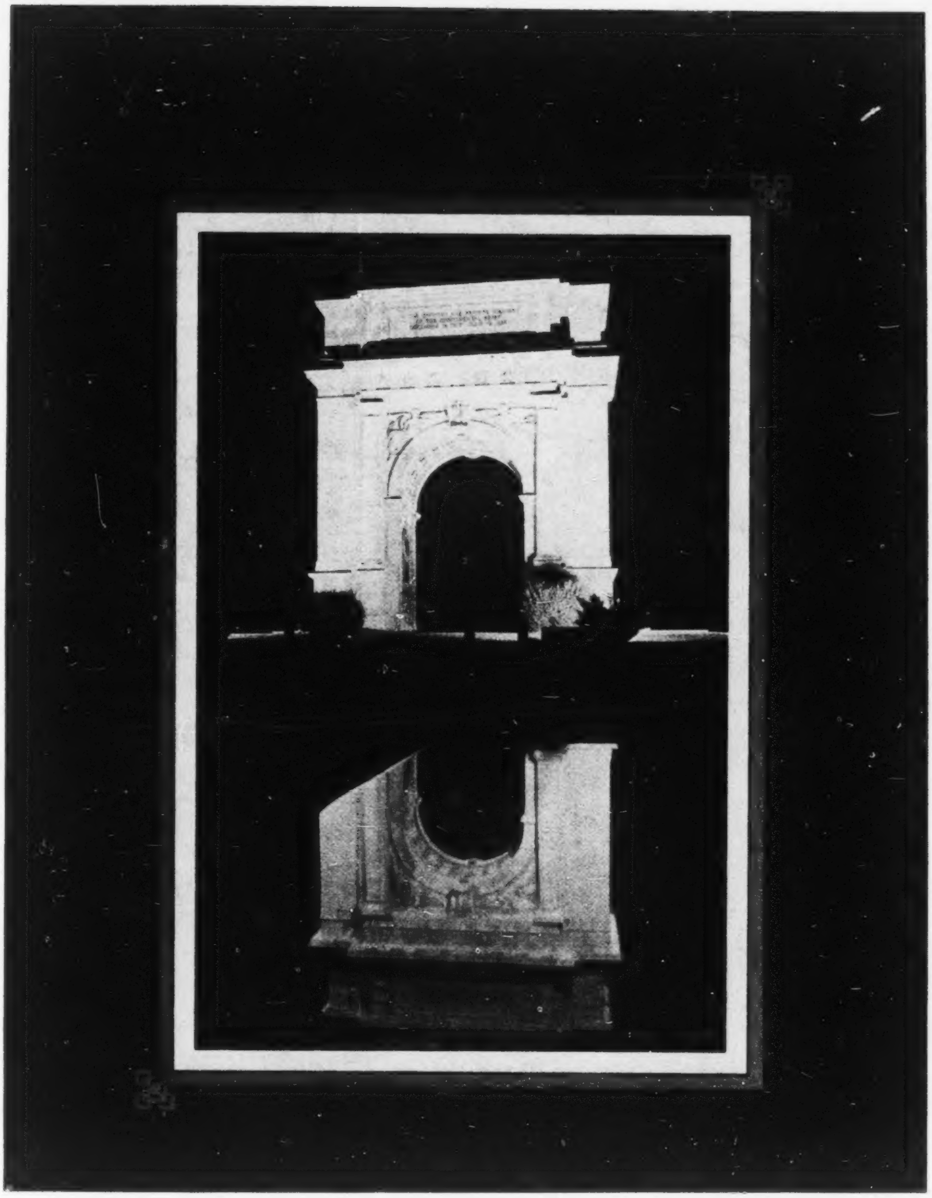
After the Revolutionary War, however, economic problems plagued the colonies. Huge debts, an unfavorable balance of trade, and the necessity for new roads, bridges and canals to transport goods provided fertile ground for a variety of lotteries. It was in this atmosphere that lotteries began to flourish. By 1815, several lottery brokerage firms were firmly established. Many of these firms also founded some of the country's largest banking institutions. The First National Bank of New York City, and Chase National Bank were chartered in this way. Their success is evidenced by the fact that, by 1832, $66.4 million had been collected through lotteries in eight eastern states.

Most of the lotteries were privately run with a general lack of government control. As the years passed this lack of control permitted cheating and fraud to develop. Thus, states began passing anti-lottery legislation. By the end of the century, few if any states permitted lottery games.

It was not until the middle of the Twentieth Century that a renewed interest in lotteries occurred. Realizing that a lottery could add $10 billion to federal reserves,and provide tax relief for every taxpayer, the 1957 Republican Party Platform included a plank for a national lottery. A short time later, in 1964, New Hampshire passed legislation which established the first state-run lottery in

Confluence of three rivers — The Ohio, Monongahela and Allegheny — Pittsburgh
Proceeds from an Eighteenth Century Pennsylvania lottery were used to fund internal improvement projects such as bridges.





the United States. This was followed by similar legislation in New York, New Jersey and Pennsylvania.

Today, 17 states and the District of Columbia have established state lotteries. Worldwide, there are 81 lotteries in 62 nations. Proof indeed that lotteries are an integral part of the governments of many states and nations. And these lotteries are crucial to providing much-needed supplemental revenue to be used for important programs while providing the population with a unique form of entertainment.

A year of playing. A year of winning.

Games. Playing them and winning at them. It's what the Lottery is all about. This year, more Pennsylvanians than ever before enjoyed the fun and excitement of playing a variety of Lottery games. The games for people who play to win. From Pennsylvania Lotto and The Daily Number to all the new Instant Games.

The Daily Number

THE DAILY NUMBER

It's a favorite with thousands of Pennsylvanians. Every day. Players choose their "lucky" 3-digit numbers, any of 6 ways to bet, and the amount they wish to bet. Then, at 6:59 p.m. each evening, Monday through Saturday, they watch the live, televised drawing. Winners can collect up to 500 times what they bet on a single ticket.

With sales totaling $453.1 million in 1982-1983, The Daily Number continues to be Pennsylvania's favorite game.

Big 4

BIG 4

This twice-weekly, pick-your-own numbers game continues to be of big interest. Big 4 gives players 5 ways to play and 5 ways to win; up to 5,000 times what they bet. Then, every Wednesday and Saturday, the Big 4 number is drawn live after The Daily Number drawing. Big 4 sales for fiscal 1982-1983 reached $64 million.

Revolutionary War Memorial, Valley Forge
One of the first lotteries in the United States was established to raise funds in support of the Colonial Army.

Pennsylvania Lotto

This latest Lottery numbers game could prove to be the most successful yet. Pennsylvania Lotto began its meteoric rise little more than a year ago, and already the response has been so overwhelming that the game was recently expanded to twice a week. Players pick up a slip, choose 6 numbers from 1 to 40, and place their bets. The crucial moment comes at 7:00 p.m. every Tuesday and Friday when the 6 winning numbers are drawn. Players win a percentage of all the money bet by matching 4, 5 or all 6 winning numbers. Prizes can range upwards to several million dollars depending on the size of the jackpot pool and the number of winners.

Pennsylania Lotto contributed $184.9 million to Lottery sales in fiscal 1982-1983.

The Instant Games

Instant Games give players the chance to play and win in a matter of minutes. A drawing held at the conclusion of each instant game offered a top prize of the ever-popular $1,000 a week for life. All told, 1982-1983 Instant Games added $183.4 million to Lottery gross sales; an increase of 90% over last year.

3 For The Dough

The game in which players tried to find a match and win the cash. Prizes ranged from free tickets to $50,000 instantly.

Holiday Cash

'Twas the season to be lucky. Holiday Cash put some green into many a holiday. Players rubbed off six grids to find three of the same prize amounts. Holiday Cash carried a top instant prize of $75,000.

3-Of-A-Kind

A yearly favorite, 3-Of-A-Kind challenged players to match card numbers and faces, and win one of several cash prizes. Including the top instant prize of $100,000.

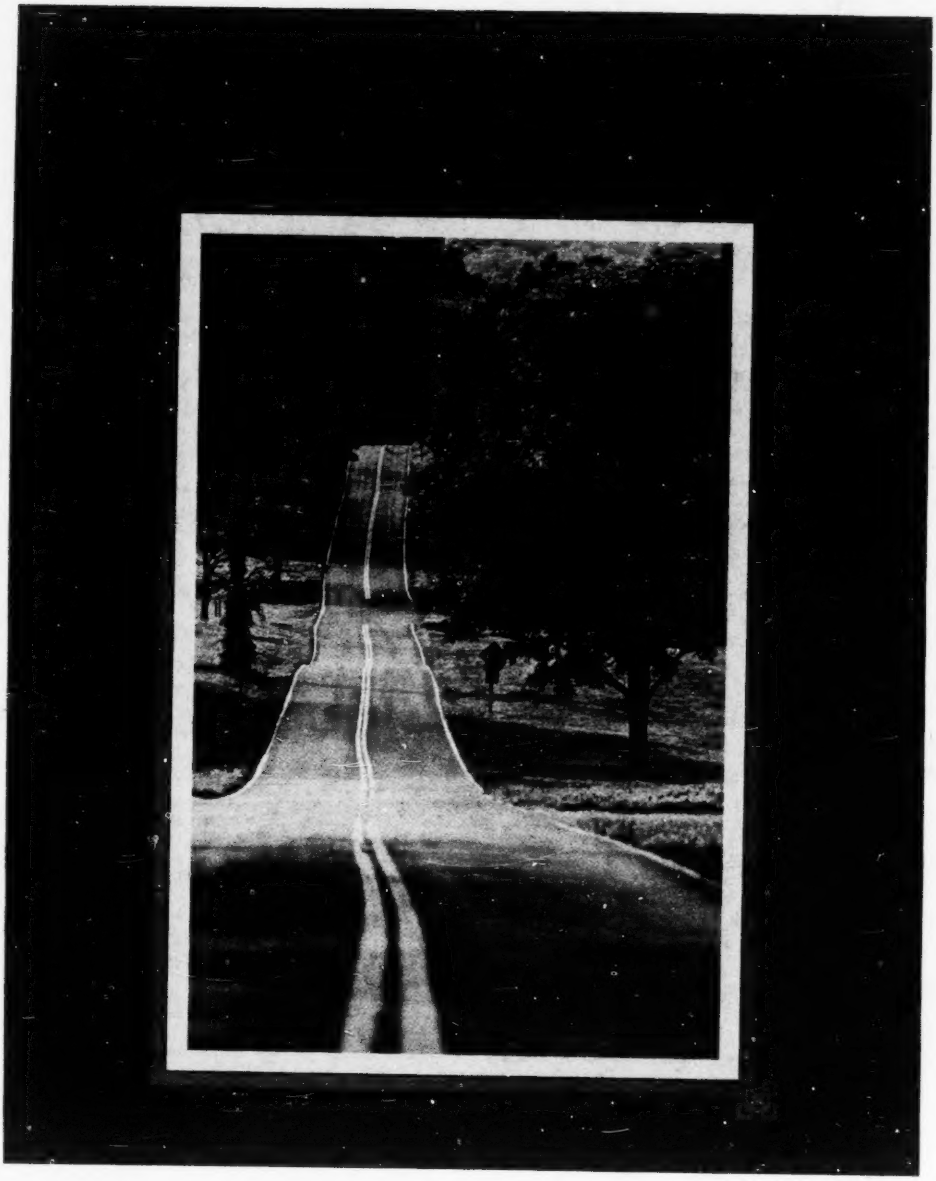
Pennsylvania Baseball

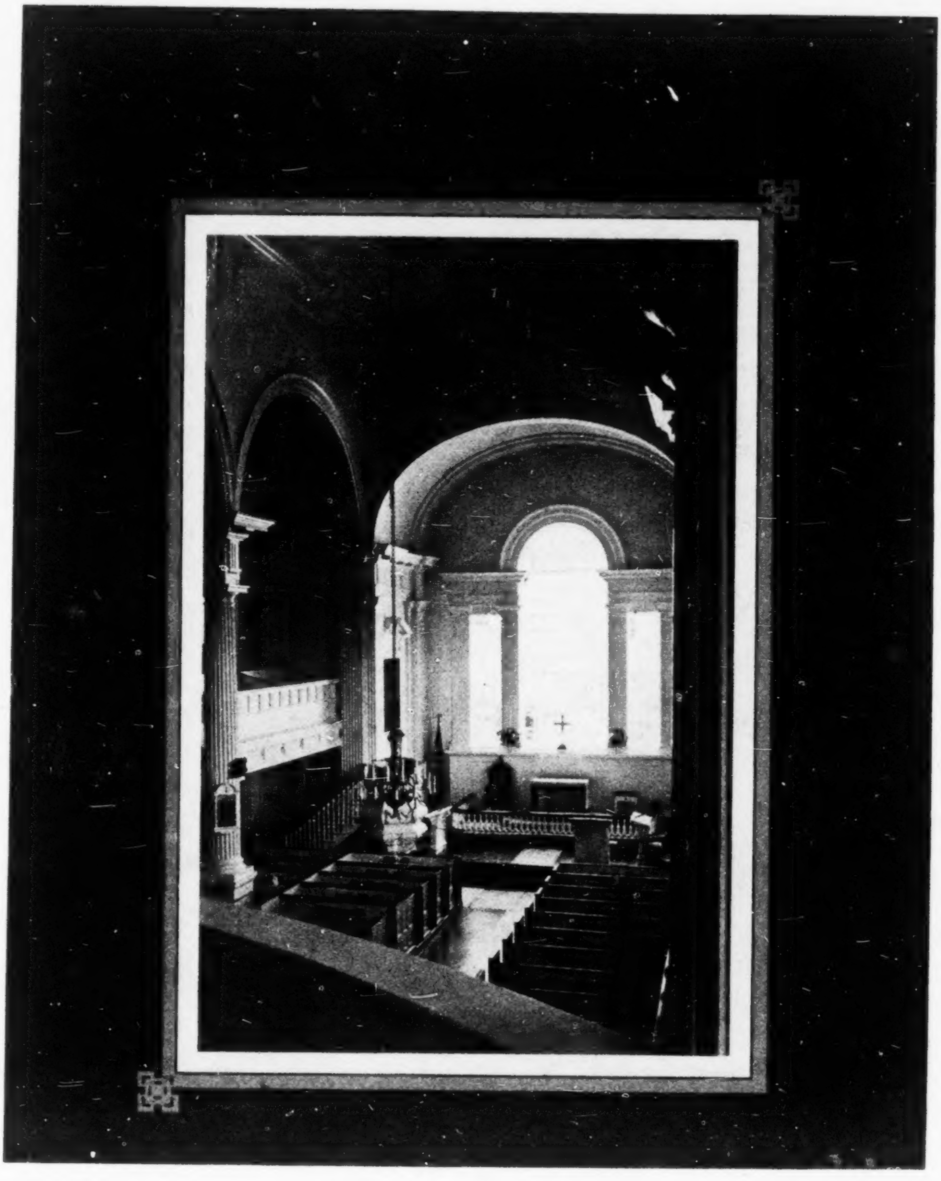
Another favorite of Lottery players was Pennsylvania Baseball. Players rubbed off 9 "innings", added up their score and tried to beat the "opponent's" score. Prizes included free tickets and a top instant prize of $50,000.

7-11-21

With 7-11-21, players rubbed off three squares and totaled their numbers. Any ticket totaling 7, 11 or 21 won a prize. Up to $75,000 instantly.

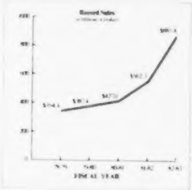
Lotteries and transportation
In 1784, Pennsylvania's first registered lottery raised $42,000 to improve roads and river transportation.





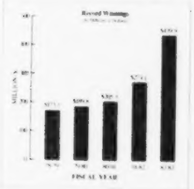
The Pennsylvania Lottery makes sales history

Record Sales



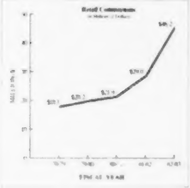
In fiscal 1982-1983, Lottery sales reached a new, all-time high of $885.4 million. The graph shows a dramatic five-year picture.

Record Winnings



By law, the Lottery must return at least 40 percent of its gross sales to winners of Lottery games. In fiscal 1982-1983, players won an unprecedented $439.9 million, or 49.7 percent of gross income.

Record Commissions



Lottery retailers are the backbone of The Pennsylvania Lottery. In restaurants, convenience stores, food markets and many other outlets throughout the state, these businessmen and women sell the tickets Pennsylvanians love to buy. Each retailer is paid 5 percent commission on each ticket sold. In fiscal 1982-1983, they received $46.3 million—the highest amount ever. What's more, Lottery retailers compete for cash and other valuable prizes throughout the year.

Christ Church, Philadelphia
Lottery funds provided for the building and maintenance of area churches. Christ Church in Philadelphia was once the recipient of lottery funds.

Comparative Statement of Income and Expenditures for the Fiscal Years Ending June 30, 1982 and 1983

INCOME:	JULY 1, 1981 to JUNE 30, 1982			JULY 1, 1982 to JUNE 30, 1983		
			% of Gross Income			% of Gross Income
Lottery Sales*	$562,256,049			$885,407,310		
Interest Income				(1)		
Miscellaneous Income	21,314			261		
Gross Income		$562,277,363	100.0		$885,407,571	100.0
LESS:						
Agents' Commission	$ 28,997,490			$ 46,266,967		
Vendors' Commission	8,003,373			13,764,139		
Banks' Commission	1,439.485			327,537		
Reserve for Prizes	274,069,652			439,922,770		
		$312,510,000	55.6		$500,281,413	56.5
Gross Commonwealth Revenue		$249,767,363	44.4		$385,126.158	43.5
LESS BUREAU EXPENDITURES AND ENCUMBRANCES:						
Total Expenditures	$ 23,110,408			$ 30,322,380		
Less Augmentation	485,895			589,050		
Total Bureau Operational Expenses		$ 22,624,513	4.0		$ 29,733,330	3.4
Revenue From Current Operations		**$227,142,850**	**40.4**		**$355,392,828**	**40.1**
Adjustments for Prior Years' Income and Expenses		$ 3,440,855		(2)	$ 17,516	
Net Revenue After Adjustments		$230,583,705			$355,410,344	

***LOTTERY SALES**	**DOLLAR VALUE**	**DOLLAR VALUE**
50¢ Lottery Sales	$ 11,371,168	$ (3,813)
$1.00 Lottery Sales	4,110,487	—0—
Instant Lottery Sales	96,342,089	183,449,571
Daily Number Sales	386,499,456	453,090,018
Big 4 Sales	51,699,377	63,957,345
Lotto Sales	12,233,472	184,914,189
	$562,256,049	$885,407,310

All figures unaudited and subject to audit by the Auditor General of Pennsylvania.

FOOTNOTES: (1) Interest Income From Investments Not Included Above $8,158,738

(2) Overstatement Of Operational Expenses $526,540; Collection of Daily Number Prize Money Paid for April 24, 1980, $20,000; Uncollectable Accounts ($469,299); Understatement of Bank Commission ($59,725).

Lottery Fund Benefits Paid to Senior Citizens During Fiscal Year 1982-1983

Totals by County Reflect Lottery Fund Benefits Distributed during Fiscal Year 1982-1983

Adams	589,753	Elk	331,054	Montour	143,218
Allegheny	22,434,334	Erie	3,161,423	Northampton*	1,821,889
Armstrong	1,040,728	Fayette	1,973,759	Northumberland	1,337,717
Beaver	2,416,762	Forrest	54,780	Perry	234,673
Bedford	417,328	Franklin	859,776	Philadelphia	28,538,476
Berks	3,829,880	Fulton	87,833	Pike	154,837
Blair	1,950,848	Greene	388,927	Potter	176,991
Bradford	687,511	Huntingdon	532,919	Schuylkill	1,596,384
Bucks	3,145,334	Indiana	859,760	Snyder	222,834
Butler	1,314,541	Jefferson	486,496	Somerset	777,200
Cambria	2,220,876	Juniata	134,977	Sullivan	66,131
Cameron	63,555	Lackawanna	3,849,267	Susquehanna	387,176
Carbon	609,581	Lancaster	3,046,837	Tioga	368,852
Centre	554,030	Lawrence	1,507,669	Union	254,790
Chester	1,648,732	Lebanon	955,853	Venango	611,500
Clarion	345,751	Lehigh*	2,674,220	Warren	487,798
Clearfield	694,213	Luzerne	5,588,877	Washington	2,471,269
Clinton	466,476	Lycoming	1,490,165	Wayne	411,743
Columbia	712,882	McKean	670,419	Westmoreland	4,212,080
Crawford	900,800	Mercer	1,394,066	Wyoming	289,579
Cumberland	1,181,356	Mifflin	604,028	York	2,792,113
Dauphin	2,028,189	Monroe	685,126	Bethlehem*	980,808
Delaware	6,426,333	Montgomery	5,356,306		

*City located in both Lehigh & Northampton counties.

Note: In addition to the above, a total of $48,228,000 in Lottery funds was distributed for free transit for the elderly during Fiscal Year 1982-1983.

Summary

Total Rent Rebates Distributed	$ 37,291,210
Total Property Tax Rebates Distributed	64,434,691
Total Inflation Dividends Distributed	39,969,925
Total Funds Allocated Through The Department of Aging	22,700,000
Total Free Transit Distributed	48,228,000
Total Senior Citizens Program Benefits Paid Fiscal Year 1982-1983	$212,623,826

Benefits Senior Citizens

Every lottery has an objective, a primary goal toward which its efforts are directed. At The Pennsylvania Lottery that goal is to provide financial help to Pennsylvania senior citizens.

When the Lottery was created in 1971, a mandate from The Pennsylvania General Assembly stipulated that the primary beneficiaries of Lottery proceeds be our senior citizens. Certain widows and widowers over age 50, and permanently disabled persons also receive benefits.

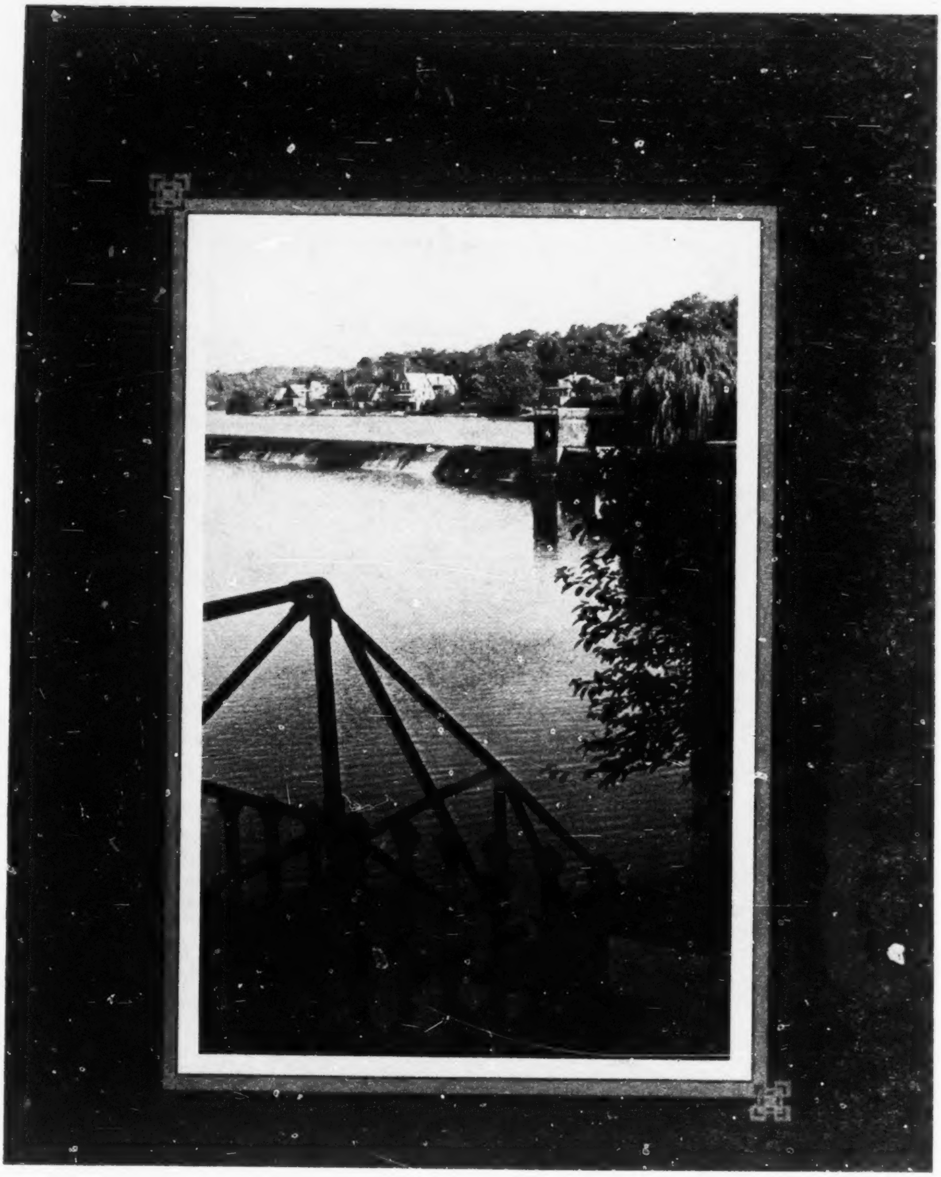
Today, the Lottery fully funds a variety of senior citizen programs. These include: property tax rebates, rent rebates, inflation dividends, free or reduced fare on urban mass transit during off-peak hours, qualifying rural transportation services, and funding for the Department of Aging's services for senior citizens.

Finally, in the fiscal year 1982-1983 $355.4 million in Lottery profits or 40.1 percent of gross income was provided to meet that mandate. Importantly, not one cent of that came from Pennsylvania tax dollars.

Benefits
Senior
Citizens

Pennsylvania Lottery

The Schuylkill River
Shortly after the Revolution, citizens of the new state of Pennsylvania held a lottery to improve navigation of this vital waterway.



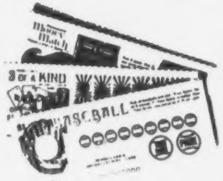
10 YEARS

THE PENNSYLVANIA LOTTERY
ANNUAL REPORT 1981 - 1982

THE COMMONWEALTH OF PENNSYLVANIA DEPARTMENT OF REVENUE

About this year's report.

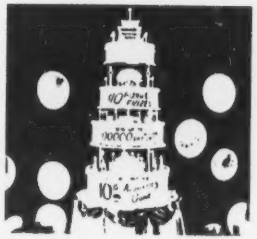
The Pennsylvania Lottery's Annual Report for the fiscal year 1981-1982 represents a milestone in Lottery history. This publication highlights the Lottery's Tenth Anniversary, and its purpose is to provide readers with an historical overview of the Lottery's growth and success. In this way, the public will have a better understanding of how the Lottery has grown over the past ten years.



In addition, the 1981-1982 Annual Report will also provide readers with a summary of the past year's events, games, sales and other pertinent information.

Finally, our Anniversary would not be complete without a celebration. In a gala way, the Pennsylvania Lottery is celebrating ten years of successful operations. In addition to an instant game designed especially for our Anniversary, a variety of special events have been scheduled. And, Lottery Benefits for senior citizens have been expanded significantly in this Anniversary year.

All in all, the Pennsylvania Lottery's Tenth Anniversary will prove to be both exciting and memorable.



Dick Thornburgh
Governor

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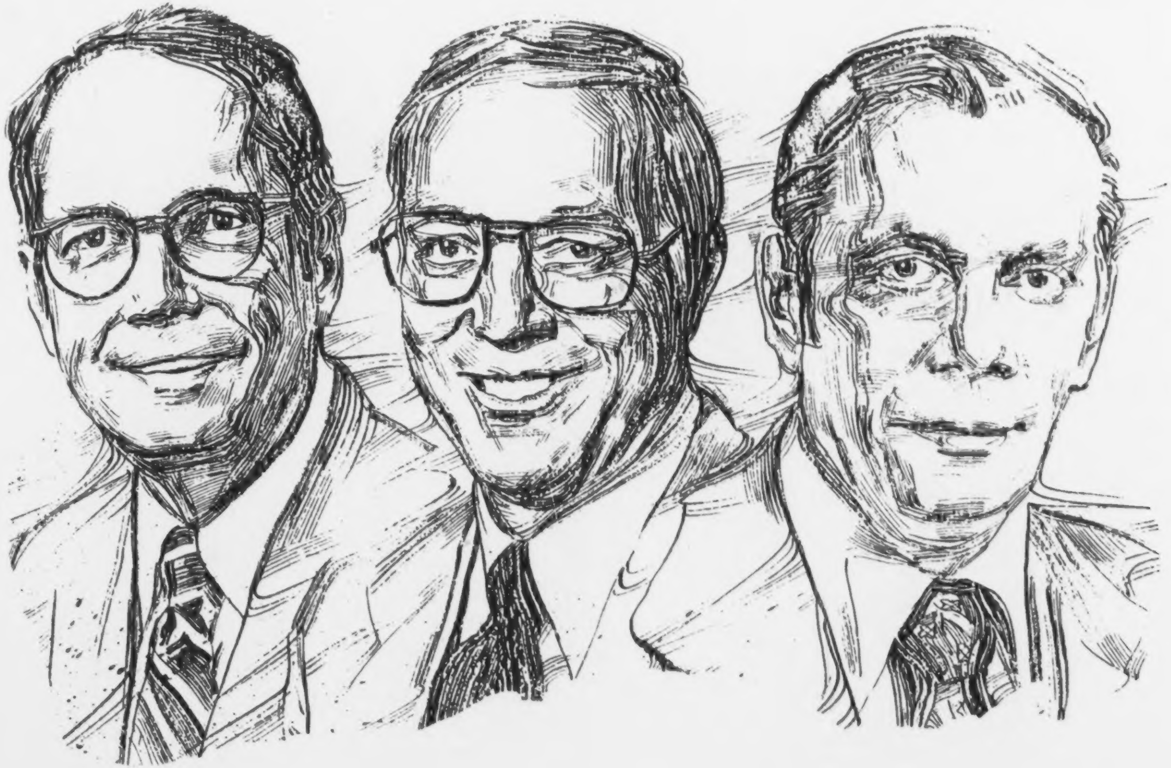
Lynn R. Nelson
Executive Director
Bureau of State Lotteries



To the people of Pennsylvania:

Ten years ago, when the Pennsylvania Lottery began its first full year of operation – no one could have predicted how long it would continue, how successful it would be, or how the citizens of Pennsylvania would respond. Today, the Lottery has become established as a financially secure member of the Pennsylvania business community backed by the support of its citizens and government. Most importantly, the Lottery continues to fulfill the mandate given it by the Pennsylvania General Assembly – to fully fund specific, worthwhile senior citizen benefit programs in Pennsylvania.

Along with providing an overview of Lottery history, this year's Annual Report will also provide a detailed look at Lottery activities during fiscal 1981-1982.

In general, fiscal 1981-1982 has proven to be yet another banner year. Sales for the year reached a new Lottery record of $562.3 million or $135.3 million more than last fiscal year. In the meantime, our net profits reached an unprecedented $227.1 million, for an increase of $57.9 million over last fiscal year. Importantly, all of these profits went into the special Lottery Fund which is used only for specific senior citizen programs, i.e. property tax rebates, rent rebates, inflation dividends, transportation programs, senior citizen services administered under the auspices of the Department of Aging, and a special bonus cash distribution during this Anniversary year.

Lottery players were also big winners this year! Prizes awarded amounted to $274.1 million, $68.6 million more than last fiscal year. And all of this was accomplished with a bureau operating expense of only $22.6 million. Just 4 percent of gross sales.

So, as the Lottery enters a second decade of operations, we wish to thank the people of Pennsylvania for making The Pennsylvania Lottery, and its program of providing vital aid to senior citizens, a real success story. That makes this an Anniversary truly worth celebrating.

Dick Thornburgh
Dick Thornburgh
Governor

Robert K. Bloom
Robert K. Bloom
Secretary of Revenue

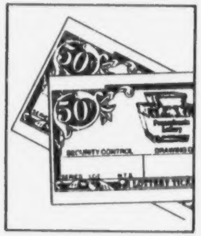
Lynn R Nelson
Lynn R. Nelson
Executive Director
Bureau of State Lotteries

1972-1982

1972-1973

The Pennsylvania Lottery begins its operations on March 7, 1972 as the first 50¢ Lottery ticket goes on sale. One month later, the first of many millionaire drawings takes place. Flooding from Hurricane Agnes forces the Lottery to close for six weeks, during which time the first consumer opinion survey is conducted. In November, the first $1 Lottery game is introduced – Lucky 7 – and the Lottery establishes a product mix of different games.

The first Property Tax rebates, with a maximum of $200, are distributed to eligible persons with incomes up to $7,499.



1973-1974

Following a brief experiment with the "Winner's Choice" game, on October 30, 1973 the Baker's Dozen game begins its long career. Also, the first agent's game is developed giving Lottery retailers additional incentives to promote Lottery tickets.

The Lottery Fund benefits are expanded to include rent rebates retroactive to the 1972 tax year and free transit for senior citizens beginning July 1, 1973.

1974-1975

A drop in weekly game sales during the last half of 1974 prompts studies of new types of lottery games – instant games, daily number games, and lotto type games. Design for the first Instant Lottery game is completed and tickets go on sale May 27, 1975.

1975-1976

Due to player acceptance of the instant games, sales again start an upward trend. Design and study for the weekly Big 50 game is begun. A feasibility study is completed on a pick-your-own numbers game. A special weekly game with televised drawings – Lucky Lotto – is run from September 1975 to January 1976. Two instant games are introduced during this year – Instant Dollars and the Bicentennial Instant Lottery.

NEW
INSTANT

1976-1977

The first Multi-Million Sweepstakes game is run, and is followed by a Sweepstakes Race at Penn National race track.

The Daily Number game begins sales on March 1, 1977 at 500 computerized retail locations throughout the Commonwealth, as the Pennsylvania Lottery enters the field of pick-your-own numbers games.

The Big 50 game begins sales, and one instant game is introduced – Instant Bingo.

THE DAILY
NUMBER
Friday, Ma
2

1977-1978

The Daily Number retailer terminal network is expanded, and Lottery sales rise dramatically as The Daily Number game increases in popularity.

The second Multi-Million Sweepstakes game is run, and two instant games are introduced – Money Match and Instant Jackpot.

A second major consumer study, called a market segmentation study, is completed.

1978-1979

The third Multi-Million Sweepstakes game is conducted, and two new instant games are introduced – 3-of-a-Kind and Pennsylvania Jackpot. A new in-house system provides for telephone validation of $25 and $50 weekly and instant game winners by the retailers to permit immediate payment of those prizes.

The maximum rebate for property taxes and rents is raised to $400 and income eligibility is expanded to $8,999.

1979-1980

Three instant games are introduced – Pennsylvania Football, Pennsylvania Sweepstakes and a second 3-of-a-Kind game. A new educational advertising program for The Daily Number broadens the appeal of the game. Continued increases in sales and profits provide funds for additional senior citizen benefits.

The Older Persons Inflation Needs Act authorizes payment of a new Lottery Fund benefit with inflation dividends ranging from $15 to $95. Payments are made retroactive to 1978 calendar year claims.

1980-1981

A second on-line game is started – Big 4 – a pick-your-own numbers game, which develops into twice weekly drawings on Wednesdays and Saturdays. A third major consumer study is completed. Three instant games are introduced – Fortune Wheel, Pennsylvania Sweepstakes and Lucky 7's.

1981-1982

The Lottery drops the passive weekly games – Big 50 and 23 for $1, and introduces Pennsylvania Lotto – a third on-line pick-your-own numbers game.

Four instant games are introduced – Money Match, 3 of a Kind, Pennsylvania Instant Baseball and the 10th Anniversary Instant Lottery. The Lottery celebrates its 10th Anniversary by passing the half-billion dollar mark in annual sales. Again, the Lottery's success provides funds for new and increased senior citizen benefit programs.

Maximum rebates are increased to $500; inflation dividends are raised to a maximum of $125; income eligibility is raised to $11,999; payments are authorized to the Department of Aging for senior citizen services; aid for both rural and urban transportation of senior citizens is expanded.

PENNSYLVANIA
Lotto

You've got to play to win.

Ten years ago, on March 15, 1972, the first Pennsylvania Lottery Drawing was held. Since then, there have been 15 different games with as many as five operating at the same time. This year is no different. All across the state thousands of Pennsylvanians enjoyed the fun and excitement of playing a variety of Lottery games – Lotto, The Daily Number, Big 4, and Instant Games – and winning big cash prizes.

The Daily Number

The daily favorite! With sales in fiscal 1981-1982 reaching $386.5 million, The Daily Number continues to be a Pennsylvania winner. Players pick their own "lucky" 3-digit numbers, choose from 6 ways to bet, and select the amount they wish to bet. The big moment comes at 6:59 p.m. each evening on the live televised drawing. Winners can collect up to 500 times the amount they bet on a single ticket.

Big 4

Big fun for everyone! Only 2 years old, Big 4 has become the game of choice for thousands of Pennsylvanians all around the state. This twice weekly, pick-your-own 4-digit number game gives players 5 ways to play, and 5 ways to win – up to 5,000 times the amount they bet. More fun comes at 6:59 p.m. Wednesdays and Saturdays when the lucky winning number is drawn following the drawing for The Daily Number. Big 4 sales in 1981-1982 totaled $51.7 million.

Big 50

Responding swiftly to the changing habits of its players is of paramount importance to Lottery game planners. Thus, in April 1982, Big 50 was discontinued after a long and illustrious history, and the final millionaire drawing for this game was held. Sales in fiscal 1981-1982 totaled $11.4 million.

23 for $1

As Lottery players shifted their interest to newer games like Big 4 and Lotto, 23 for $1 was discontinued. But not before contributing $4.1 million in sales for fiscal 1981-1982.

The Instant Games

Pennsylvanians got their first chance to win "instant cash" in 1975 when the first instant game was introduced. Each instant game is played for a fixed period of time. Free ticket winners are eligible for the top prize of $1,000-a-week for life. 1981-1982 was a banner year for instant games with sales totaling more than $96.3 million.

Money Match

The game in which players rubbed off the six covered spots and tried to match prize amounts. Lucky players won the top instant ticket prize of $25,000.

3 of a KIND

Find 3 of a Kind and win big! One of the Lottery's most successful instant games, 3 of a Kind players matched card numbers or faces to win up to $50,000 instantly.

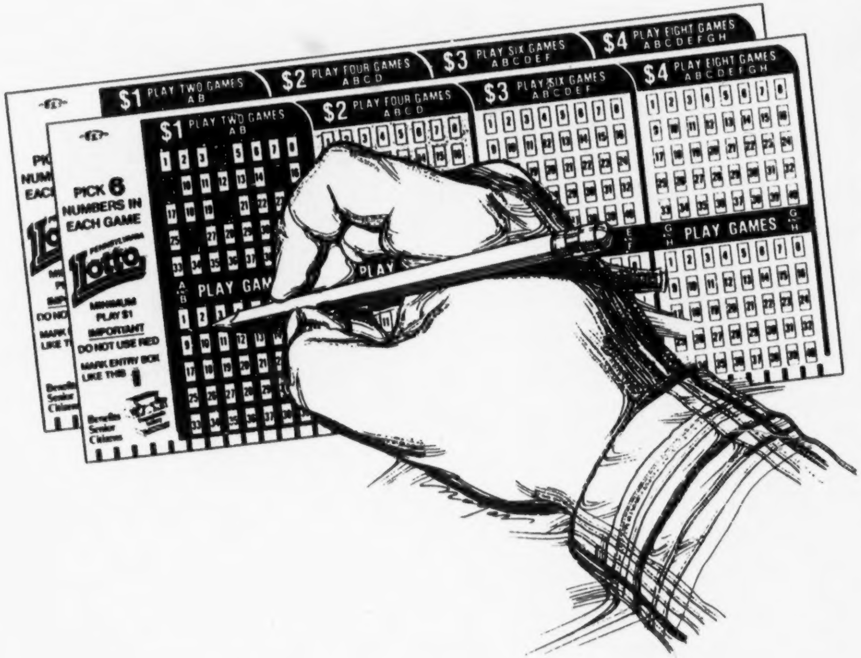
Baseball

Batter up for the game with the top instant prize of $50,000. Players rubbed off the 9 covered spots on their Baseball tickets, added the total score and tried to beat the opponent's score. The immediate success of Baseball required additional tickets and a second millionaire drawing.

Anniversary Game

What better way to celebrate the Lottery's 10th Anniversary than with an instant game – The Anniversary Game – a special game with very special prizes. By matching three 10's in any row, column or diagonal players won the prize shown. Up to $100,000 instantly. The highest instant cash prizes ever. Players also had a chance to win 10th Anniversary Bonus prizes. Like an instant $10 or 10 free tickets. In celebration, 50,000 extra $10 prizes were created.

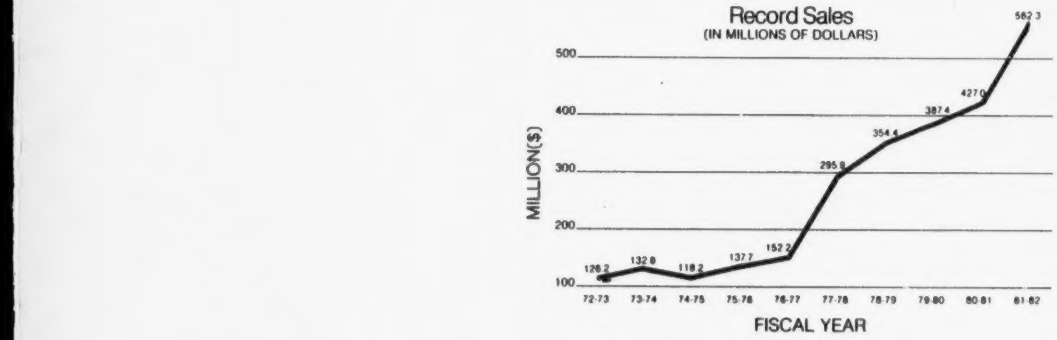
Pennsylvania Lotto

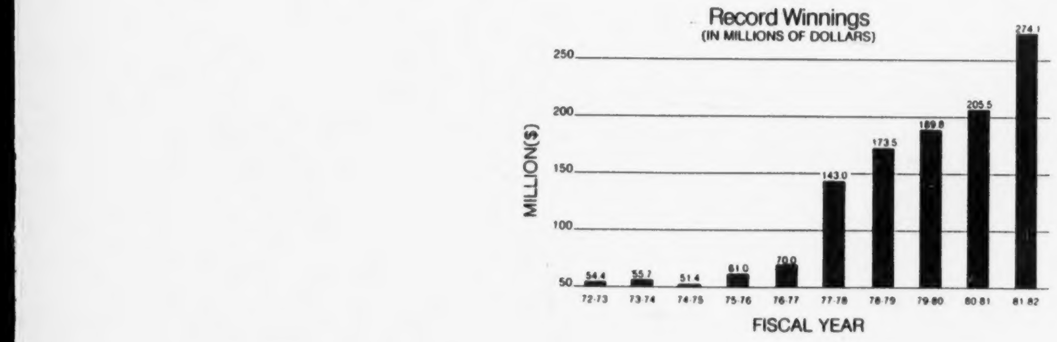

$1 PLAY TWO GAMES A B
$2 PLAY FOUR GAMES A B C D
$3 PLAY SIX GAMES A B C D E F
$4 PLAY EIGHT GAMES A B C D E F G H
PICK 6 NUMBERS IN EACH GAME
Lotto
MINIMUM PLAY $1
IMPORTANT DO NOT USE RED
MARK ENTRY BOX LIKE THIS
Benefits Senior Citizens
PLAY GAMES

PENNSYLVANIA
Lotto

Lotto fun. Lotto cash. Lotto excitement. It's the Pennsylvania Lottery's newest on-line game – Pennsylvania Lotto. And there's no other game quite like it. Since April 13, players have been able to pick up a free bet slip at a Lottery Numbers Retailer. They then pick any six numbers out of forty for each game they play. The real fun begins as players from all across the state watch the live T.V. drawing Friday nights right after The Daily Number drawing. At that time, 7 Lotto numbers are drawn at random: 6 winning numbers, plus 1 alternate number. If players match all 6 winning numbers they win a share of the big Lotto jackpot. Players matching 5 of the 6 winning numbers, or 4 of the 6 winning numbers also win prizes. This newest of Lottery games has won quick acceptance as one lucky player won $5.5 million paid in 21 installments, the largest single Lottery prize paid in the U.S. at that time.

A ten-year success story.


Record Sales
(IN MILLIONS OF DOLLARS)


Record Winnings
(IN MILLIONS OF DOLLARS)

In fiscal year 1972-1973, Lottery sales totaled $126.2 million. Now, 10 years later, in fiscal year 1981-1982, sales have risen dramatically. And in this 10th Anniversary year, sales are at an all-time high totaling $562.3 million. The graph shows how Lottery sales have increased over the past ten years.

By law, the Lottery must return at least 40 percent of its gross sales to the winners of Lottery games. In fiscal 1981-1982, Lottery players won $274.1 million, representing 48.7 percent of gross income.

PENNS
JUM
PLAY
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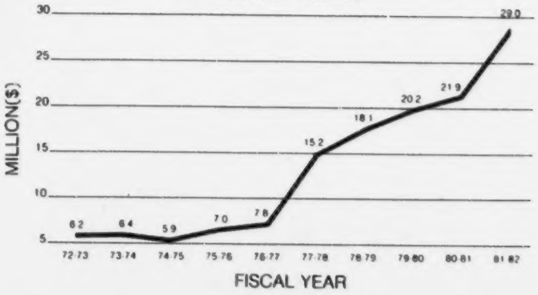
Record commissions to retailers.

YLVANIA LOTTERY
BERS GAM
HERE!
HERE!

Without Lottery retailers there would be no Lottery games. In restaurants, service stations, food markets, newsstands, and many other outlets throughout the state, these businessmen and women play an active part in the sale of Lottery tickets. Because they are so important, the Lottery pays them 5 percent commission on every ticket they sell. In fiscal 1981-1982, they received $29 million in commissions, the highest amount ever. The graph shows the ten year picture of cash earned by Lottery retailers. In addition to commissions, Lottery retailers compete for thousands of dollars in retailer incentive awards and cash bonuses.

Retailer Commissions
(IN MILLIONS OF DOLLARS)



Statement of Income and Expenditures for the Fiscal Years Ending June 30, 1981 and 1982.

INCOME:	JULY 1, 1980 TO JUNE 30, 1981		% OF GROSS INCOME	JULY 1, 1981 TO JUNE 30, 1982		% OF GROSS INCOME
Weekly Lottery Sales*	$427 011 940			$562 256 049		
Interest Income				(1)		
Miscellaneous Income	36 787			21 314		
Gross Income		$427 048 727	100 0		$562 277 363	100 0
LESS:						
Agents Commission	$ 21 917 952			$ 28 997 490		
Vendors Commission	10 087 139			8 003 373		
Banks Commission	1 448 698			1 439 485		
Reserve for Prizes	205 481 540			274 069 652		
		$238 935 329	56 0		$312 510 000	55 6
Gross Commonwealth Revenue		$188 113 398	44 0		$249 767 363	44 4
LESS BUREAU EXPENDITURES AND ENCUMBRANCES:						
Total Expenditures	$ 19 313 531			$ 23 110 408		
Less Augmentation	437 760			485 895		
Total Bureau Operational Expenses		$ 18 875 771	4 4		$ 22 624 513	4 0
REVENUE FROM CURRENT OPERATIONS		$169 237 627	39 6		$227 142 850	40 4
Adjustments for Prior Years Income and Expenses		$ 10 291 662		(2)	$ 3 440 855	
Net Revenue After Adjustments		$179 529 289			$230 583 705	

*WEEKLY LOTTERY SALES	DOLLAR VALUE	DOLLAR VALUE
50¢ Lottery Sales	$ 14 998 874	$ 11 371 168
$1 00 Lottery Sales	5 543 659	4 110 487
Instant Lottery Sales	64 048 669	96 342 089
Daily Number Sales	318 901 956	386 499 456
Big 4 Sales	23 518 782	51 699 377
Lotto Sales	-0-	12 233 472
	$427 011 940	$562 256 049

All figures unaudited and subject to audit by the Auditor General of Pennsylvania

FOOTNOTES:

(1) Interest Income From Investments Not Included Above $9,780,504.

(2) Overstatement Of Fiscal Year 1980-81 Operational Expenses $56,676; Collection of Daily Number Prize Money Paid for April 24, 1980 $25,000; Uncollectable Accounts ($99,706); Overstatement of Regular Lottery Sales ($2,451,399); Overstatement of Instant Lottery Sales ($359,385); Overstatement of Misc. Income ($1,535); Overstatement of Agent Comm. $326,098; Understatement of Bank Comm. ($21,516); Overstatement of Regular Lottery Reserve for Prizes $2,472,614; Overstatement of Instant Lottery Reserve for Prizes $3,494,008.

Lottery Fund Benefits Paid to Senior Citizens During Fiscal Year 1981-1982.

Totals by County Reflect Lottery Fund Benefits Distributed during Fiscal Year 1981-1982

Adams	$680 827	Elk	409 059	Montour	172 859
Allegheny	24 115 656	Erie	3 611 195	Northampton*	2 109 838
Armstrong	1 185 656	Fayette	2 192 110	Northumberland	1 632 969
Beaver	2 685 042	Forrest	64 335	Perry	296 084
Bedford	513 981	Franklin	1 028 511	Philadelphia	30 386 713
Berks	4 417 675	Fulton	102 378	Pike	175 382
Blair	2 252 236	Greene	430 890	Potter	200 548
Bradford	744 965	Huntingdon	605 405	Schuylkill	2 415 502
Bucks	3 278 325	Indiana	938 774	Snyder	243 376
Butler	1 538 786	Jefferson	361 462	Somerset	878 508
Cambria	2 530 760	Juniata	168 857	Sullivan	80 246
Cameron	77 204	Lackawanna	4 449 875	Susquehanna	475 355
Carbon	741 511	Lancaster	3 571 864	Tioga	419 348
Centre	667 952	Lawrence	1 675 606	Union	284 696
Chester	1 784 939	Lebanon	1 148 339	Venango	715 282
Clarion	388 166	Lehigh*	3 075 579	Warren	557 066
Clearfield	813 005	Luzerne	6 413 971	Washington	2 669 899
Clinton	515 415	Lycoming	1 663 885	Wayne	458 524
Columbia	851 564	McKean	788 085	Westmoreland	4 631 061
Crawford	1 039 512	Mercer	1 597 906	Wyoming	345 247
Cumberland	1 351 206	Mifflin	733 819	York	3 323 360
Dauphin	2 355 608	Monroe	742 715	Bethlehem*	1 141 747
Delaware	6 994 217	Montgomery	5 970 961		

*City located in both Lehigh & Northampton counties

Note In addition to the above a total of $27 005 322 in Lottery funds was distributed for free transit for the elderly during Fiscal Year 1981 1982

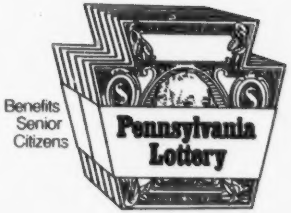
SUMMARY

Total Property Tax Rebates Distributed	$60,361,367
Total Rent Rebates Distributed	32,595,610
Total Inflation Dividends Distributed	22,592,875
Total Bonus Payments Distributed	42,306,800
Total Free Transit Distributed	27,005,322
Total Senior Citizens Program Benefits paid Fiscal Year 1981-1982	$184,861,974

"Benefits Senior Citizens"

Next to the Lottery keystone is the phrase "Benefits Senior Citizens." That phrase identifies an important goal for Pennsylvania Lottery Operations. Its purpose is to remind the citizens of Pennsylvania that, by a mandate from the Pennsylvania Legislature, the primary beneficiaries of Lottery proceeds are senior citizens. Qualifying widows and widowers over age fifty, and permanently disabled persons also receive benefits.

The programs fully funded by the Lottery include, property tax rebates, rent rebates, inflation dividends, free urban mass transit during off-peak hours and qualifying rural transportation services. Recent legislation also authorized funding for the Department of Aging's services for senior citizens. In the fiscal year 1981-1982, Lottery profits of $227.1 million or 40.4 percent of gross income were provided to meet that mandate. Importantly, not one cent of that came from Pennsylvania tax dollars.



Testimony

of

State Representative John Brandl

before the

U.S. Senate Subcommittee on Intergovernmental Relations

Washington, D.C.

October 3, 1984

My name is John Brandl. I am here as a Minnesota State Representative but as well am an economics professor in the Hubert H. Humphrey Institute of Public Affairs of the University of Minnesota.

The assignment given me today is to present a political-economic case against a lottery. First consider the other arguments, pro and con.

Proponents of a lottery say: maybe gambling that is legal and clean supplants the illegal, dangerous varieties; it is an entertaining and voluntary alternative to taxes which are neither; a majority of people appear to favor one.

On the other hand, there are numerous reasons for opposing a state lottery: success requires government to be in the unseemly position of encouraging and preying on our ignoble impulses, thereby inducing an increase in the incidence of compulsive gambling as well as a variety of other legal and illegal social costs; half or less of the money bet is returned to winners, the rest constituting a tax on gambling -- one that is both regressive and remarkably expensive to administer.

When debating the lottery question in the Minnesota House I stress a different argument against a lottery, one that is powerful, directly responsive to what proponents claim is their strongest point, and surprisingly rarely heard.

A leading proponent of a state lottery contends that "the major single reason why we should have a lottery is based on economics .... A state lottery could act as a stimulant for many small businesses [since agents would receive] a commission for all their sales .... This additional revenue could be used to help those businesses grow or meet their operating expenses."

Now, for the society as a whole to experience economic growth requires either new dollars -- spending that would not have taken place otherwise -- or investment in bright ideas, new technology or more productive workers so that an increase in goods and services can be had from our resources. Neither occurs when the net receipts of some stores rise from the sale of lottery tickets. No new dollars have been created, nothing has been invested, the economy is not more productive. What has happened is that people have spent their money on lottery tickets rather than movies, savings bonds, groceries or whatever else they would have done otherwise. Jobs haVE BEEN "created" for new sales clerks, for government overseers and for advertisers -- states with lotteries spend an eighth or so of lottery proceeds on inducing citizens to participate. Meanwhile an equivalent number of jobs have been "uncreated" wherever people are not now spending the dollars they have switched over to the purchase of lottery tickets.

The retort comes back: "We'll dedicate the revenues to education or to economic development." Be that as it may, a lottery is more expensive than any other way that governments in this country use to raise money for those or any other purposes. Whereas administration of a sales tax takes 2% or so of the tax's proceeds, the average amount spent on administering and advertising a state lottery is 13% of the total taken in; just under half of gross receipts is paid out in prizes and the remainder is the state's net revenue.

Too often government justifies an action, whether a lottery or a building project, by extolling the benefits, e.g., the jobs that have been created, but ignoring the cots, the corresponding number of jobs lost by the diversion of spending from elsewhere. That is acceptable behavior for a private firm that does not have a responsibility to be concerned with the effects of an increase in its sales on competitors who have lost sales as a result. Precisely because government's responsibility is to all of the people it must trace out all of the practically discernible effects of its actions.

A society in need of hard work, discipline, saving, investment and economic growth is not well advised to put its hopes in a lottery.

STATEMENT OF CHARLES T. CLOTFELTER
BEFORE THE

SENATE SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS,
COMMITTEE ON GOVERNMENTAL AFFAIRS

HEARING ON STATE LOTTERIES

October 3, 1984
9:30 A.M.

Mr. Chairman, I will not present an argument today for or against state lotteries. Instead, I would like to highlight--from an economist's perspective--what I consider to be some of the most important issues in considering the use of state lotteries to raise revenue.

State lotteries in this country have been a fiscal phenomenon since their modern reintroduction in 1964 in New Hampshire. Their gross sales have increased from $655 million (in eight states) in 1973 to some $5.2 billion (in 17 states and the District of Columbia) in 1983. This represents an annual growth rate in sales of about 23 percent per year. The roughly $5 billion in legalized lotteries represents about $20.00 per capita in the lottery states. Although legalized betting has a long history in other countries, this is a fairly new phenomenon in the United States. In light of the newness of modern lotteries, this growth in sales is all the more impressive.

Not only has there been great growth in the number of states using lotteries, but still more states are considering the use of lotteries. Although there have been no states in the South to have adopted lotteries, my own state of North Carolina has seriously considered it, and a poll taken in 1983 showed that 59 percent of residents favored the lottery and 55 percent would play if it were legal.

Never envisioned as a major revenue source, lotteries are nevertheless producing significant revenues for some states. The lottery is the fourth largest revenue source in Illinois and the third largest in Maryland. In New Jersey and Maryland, lottery proceeds represent 6 percent of total state revenues.

It must be pointed out, however, that most states advertise their lotteries heavily, using newspapers, television, radio and billboards. Celebrities pick winning numbers on TV. The names of big winners are publicized. Most states spend over 1 percent of sales on advertising, higher than the rate for all private corporations in the U.S. Marketing also includes the periodic introduction of new games, such as Connecticut's "Money Tree," Ohio's "Lucky Buck," and New Jersey's "Lottery Derby." Between 1974 and 1980, for example, Ohio's lottery ran more than eighteen different games. The most popular games in lottery states are the daily "numbers" game in which players select their own number and a variety of computer-aided games also allowing players to choose their own numbers, but the variations of lottery games are almost endless. Variation is also seen to be important in maintaining sales.

Why do people play? Certainly there could be no "rational" expectation of gain, since only a portion of sales are returned as prizes. Whether it is hope for one big hit or simply the thrill of playing the game, players clearly feel they are receiving something. If their information is good and if they are deemed the best judge of their own well being, economists would say that lottery players do benefit from playing simply because they play willingly. To the extent that players are misinformed, however, the usual economic conclusion may not be valid.

Four Aspects of State Lotteries

Let me now focus on four separate aspects of state lotteries as we know them today. They are: legalization, government operation, intensive marketing, and heavy taxation.

1. Legalization. By legalizing a given activity, the government confers benefits--as measured by individuals' own preferences. Even if "irrational" in an expected income sense, and despite the potential for abuse, there are benefits to fully informed players. Another possible benefit, of course, is any reduction in the popularity of illegal games.

There is, however, a potential cost. By legalizing betting, the government inevitably makes a kind of moral statement. Besides its other functions, the law serves an instructional role. Legalization implies a sanction of a legalized activity.

2. Government operation. Out of an apparent concern about our potential corruption, all state lotteries are presently operated by state agencies. This may be an inevitable outcome, but it is not obvious if it is. By operating as well as legalizing state lotteries, state governments confer more complete approval on the activity. One might ask the question, if marijuana were legalized, would states so readily produce or sell it? Some states certainly operate liquor stores, but, as I note below, their mode of operation is quite different in the case of lotteries.

3. Marketing. Through their lottery agencies, states with lotteries actively market their product. Not only do they advertise through various media, but they rely on frequent changes and innovations in lottery games to stimulate sales. Advertising budgets vary, but most states, as noted above, spend over 1 percent of their sales on advertising.

Obviously, any objections to legalization and operation by states are multiplied when the government actively advertises its goods in this way. There is, in fact, no necessity for the intensive marketing efforts that characterize most state lotteries. By engaging in what could be characterized as gaudy media hype with the themes "Easy to Play!" and "It Could Happen to You!" (New Jersey lottery adds), lottery states make an endorsement of the product going well beyond simply legalizing the activity.

4. Taxation. On average some 40 to 45 percent of state lottery sales are skimmed off as state revenue. Expressed in terms comparable to the taxes on other consumption items, this 40 to 45 percent rate translates into

excise tax rates of 67 to 82 percent, much higher than the "sumptuary" tax rates on alcohol and tobacco, commodities whose dangers to health and safety are well known.

The incidence of this tax--that is, the analysis of who pays--has been the topic of a number of studies. It is customary to measure incidence by observing the relationship between income and the tax as a proportion of income. If this average tax rate falls as income increases, the tax is said to be regressive. I am familiar with five empirical studies of this incidence and all have concluded that this revenue source is regressive. That is, the percentage of income paid by families falls as one goes up the income scale. Over some income ranges, the absolute expenditures do rise with income, and they again fall in other ranges, a pattern which has been observed with weekly lotteries. It may also be the case that the proportion of individuals who play rises with income. The measure of regressivity normally used in the study of tax incidence, however, has to do with the ratio of expenditures to income.) For "daily numbers" lotteries, the pattern is even more decidedly regressive. (I have attached two empirical studies of the incidence of lottery taxes.) While there is no complete study of the incidence of revenue from "lotto" games, evidence from Maryland presented in the hearing by Trahon suggests a similar pattern of regressivity. Residents of Montgomery County, the state's richest, received about 21 percent of all total state income, yet that county's lotto sales were only 11 percent of the state total. Prince Georges County, with a lower income and a significant nonwhite population, have 17 percent of state income and 26 percent of its lotto sales. Such observations are consistent with a regressive pattern of expenditures and taxes.

A tax on lottery sales, especially daily lotteries, is more regressive than excise taxes on food consumed at home, tobacco, alcoholic beverages, or total consumption.

Still, state lotteries are not a tax like other taxes, because lotteries bring legalization and taxation together. As a state senator from Maryland said, "the poor are willing suckers, and it's hard to defend a group that doesn't want to be defended."

Conclusion

As an economist, I can present no compelling argument for or against the existence of lotteries. Moral questions must be weighed against benefits, and I do believe that lotteries have benefits as well as costs.

What is difficult to reconcile is the coexistence of unusually high rates of tax and heavy marketing. If social disapproval of betting is the reason for high tax rates (higher than for alcohol or tobacco), it is quite difficult to justify the amount of advertising we observe. In fact, neither high tax rates or advertising are necessary parts of a state lottery. A lottery could be operated with just enough informational advertising to inform bettors about games and odds of winning. After all, we operate liquor stores without billboards and TV spots. A lottery likewise could be operated with lower tax rates, or with higher tax rates placed on other commodities. Of course, such a lottery would bring less revenue to states. However they are operated, state lotteries have the potential of becoming a significant source of revenue for a state. Whether the state should be willing to engage in the aggressive marketing and heavy taxation we usually observe, however, is debatable.

ON THE REGRESSIVITY OF STATE-OPERATED "NUMBERS" GAMES**

CHARLES T. CLOTFELTER*

As legalized gambling has grown as a source of state revenues, economists and policy makers have become increasingly interested in the distributional impact of these revenues. In particular, a number of empirical analyses have focused on the regressivity of state lotteries. Although it can be shown that the *legalization* of lotteries may favor the poor,[1] all published evidence suggests that the *excise tax on purchases* of lottery tickets is decidedly regressive, in fact, more regressive than sales taxes.[2] These studies, however, refer only to conventional lottery games based on weekly drawings of winning numbers. There has as yet been no empirical analysis of the incidence of a new and growing version of state lotteries: daily "numbers" games. Utilizing computer outlets to record bets, these games allow players to pick their own numbers or combinations of numbers, and they offer daily drawings of winning numbers. The similarity to illegal numbers games extends even to the payoffs for winning numbers. By 1978, six of the more than a dozen states operating lotteries had introduced daily games. Sales for these games are estimated to be almost a billion dollars a year, accounting for some 45 percent of total lottery sales in the country.[3] In several states the sales for these games now exceed sales of the other weekly lotteries.[4] In Maryland, for example, daily lottery sales in 1977 (the first full year of its operation) were $207.7 million, almost eight times the $26.1 million for the five year-old weekly game. The daily game in that state is primarily responsible for a six-fold increase in total lottery sales from 1974 to 1977.

The best available evidence on the probably incidence of daily lottery games is Suits's (1977) analysis of survey data on participation in the illegal numbers game. This evidence indicates that expenditures on illegal numbers are somewhat more regressive than expenditures on weekly state lottery games. If all major existing illegal games were legalized and if they retained their former patterns of demand, the Suits analysis suggests that sports cards and numbers would be the two most regressive revenue sources. There is good reason to believe, however, that the average characteristics of the participants in a legalized numbers game would not be the same as those in the illegal numbers game. In explaining a participation rate of only 3 percent for illegal numbers, Suits (p. 33) states:

> The low participation occurs primarily because the game's illegal status not only precludes promotional advertising, but also entails a labor-intensive operation which is profitable only with the high volume possible in areas of high population density. A legal game, free of these restrictions would attract much wider participation.

Given the dramatic growth in revenues from state-run daily numbers games and the lack of direct evidence on their incidence, it is important to examine the distribution of revenues from such games. The present paper examines the distribution of sales for Maryland's daily "numbers" game. As with studies of conventional excise taxes, examining the incidence of expenditures is equivalent to examining the incidence of revenues since the latter are a constant proportion (about 45 percent for lotteries) of the former.

Data

Unpublished data on average sales of daily and weekly lottery tickets in 1978 were obtained from the Maryland State Lottery Agency. The figures represent the ten-week averages of sales by zip code and were collected only for zip codes where both kinds of tickets were sold.[5] In addition, estimates of the number of households and the median household income in 1974 were obtained for each zip code area.[6] Zip code areas were used instead of counties because they are more numerous and much more homogeneous than counties. The major drawback to the use of sales figures for such small areas is the likelihood that many purchasers of tickets in an area may not live in the area but rather only buy their tickets there. In the analysis below, several steps are taken in order to minimize the effects of purchases by nonresidents. First, because of the likelihood that District of Columbia residents comprise a significant portion of lottery participants in areas bordering the District, zip code areas either touching or crossing over the District line were omitted from the sample. The sample contained 139 areas after these exclusions. Second, estimates from weighted regressions were obtained to account for the larger errors likely in areas with relatively large ratio of commercial to residential uses.[7] The existence of such errors was suggested by the finding that the largest per capita sales in the sample were reported in several predominantly commercial zip code areas with small populations. The third method used to correct for the inability to measure the relevant market size was to eliminate the population measure altogether by using ratios of daily to weekly sales, as described below.

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*Duke University.

Measuring Comparative Regressivity

A simple model of daily and weekly lottery sales relates per capita sales to median household income in each zip code area (Y):

$$D/H = AY^{\alpha} e^{u} \qquad (1)$$

$$W/H = DY^{\beta} e^{v} \qquad (2)$$

where D and W are average sales per week in the area, H is the number of households in the area, and u and v are error terms.[8] The constants α and β are the income elasticities of expenditures for each type of lottery. Since lottery revenues are effectively excise taxes on lottery expendi-

Table 1

Income Elasticities for Purchases of
Weekly and Daily Lottery Tickets,
139 Maryland Zip Code Areas

	Ordinary Least Squares	Weighted Regressions
Daily Lottery Purchases		
$\hat{\alpha}$ (Equation 1)	-.704	-1.112
Standard Error	(.224)	(.167)
Weekly Lottery Purchases		
$\hat{\beta}$ (Equation 2)	.062	- .077
Standard Error	(.172)	(.129)
Ratio of Daily to Weekly Lottery Purchases		
$\widehat{(\alpha-\beta)}$ (Equation 3)	-.766	-1.035
Standard Error	(.188)	(.193)

Table 2

Cumulative Percentage of Household Income
and Lottery Sales in Maryland

Income	Percent of Total Income Earned by Families with Less than Indicated Income 1/	Cumulative Percent of Total Sales 2/ from: Daily Lottery	Weekly Lottery
$ 8,000	3.2	13.9	8.5
10,000	11.0	34.6	21.8
12,000	18.8	45.2	34.4
14,000	31.6	60.2	48.5
16,000	45.4	75.7	62.8
18,000	62.4	85.6	76.4
20,000	72.2	90.9	83.7
22,000	89.7	98.0	95.5
Total	100.0	100.0	100.0

1/ Incomes are based on estimates of median household income for zip code areas in 1974. See Rezide (1977).

2/ Source: Unpublished data, Maryland State Lottery Agency.

tures these income elasticities correspond to the measure of liability progression.[9] An income elasticity of one would correspond to a proportional tax base (and tax) while elasticities less than one would correspond to regressive tax bases. The findings of Suits (1977) would imply an elasticity value in the regressive range for weekly lotteries ($\beta < 1$). Furthermore, if spending patterns on daily lotteries are similar to those for the illegal numbers games, the Suits analysis would also imply a value of α less than one.

Aside from the problem of making inferences about legal daily lotteries on the basis of illegal numbers games, the Suits analysis does not lend itself to a statistical test of the comparative regressivity of various gambling excise taxes. In particular, it is difficult to know how much reliance can be placed on the finding that taxes on weekly lotteries are less regressive than taxes on numbers games would be. In order to test the comparative regressivity of the excise taxes on weekly and daily lotteries, equations (1) and (2) may be combined to obtain:

$$D/W = CY^{\alpha-\beta} e^{w}, \qquad (3)$$

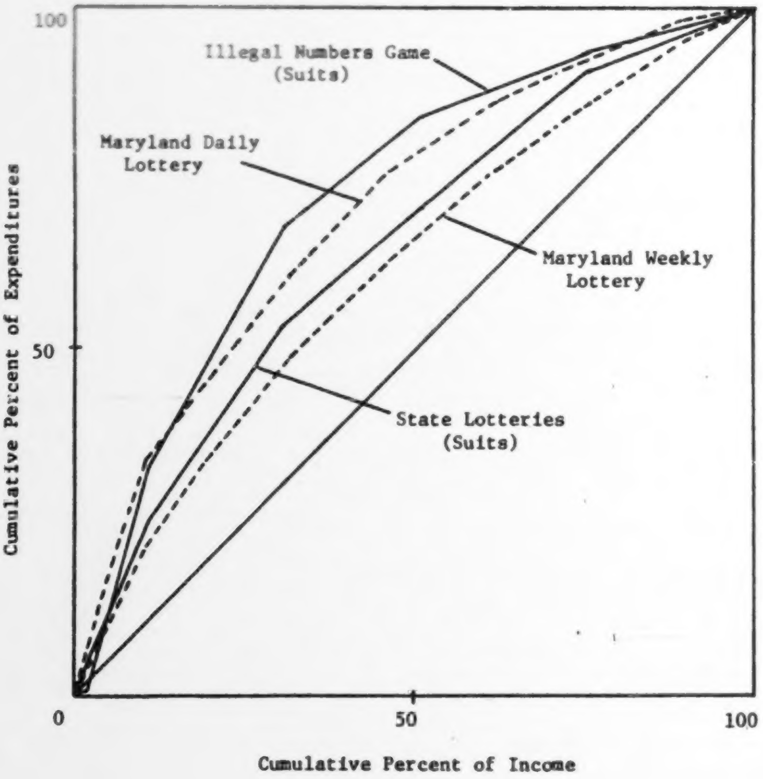
where C is a constant and w is an error term. The difference in elasticities ($\alpha - \beta$) can be estimated, providing a direct test of the hypothesis that there is no difference in the degree of regressivity of the two taxes. In addition, this transformation lessens the problem created by using areas corresponding to the location of sales rather than to the residence of purchasers. If the residential population of the area understates the population of potential purchasers, and if this understatement is correlated to income, the estimates of the income elasticities α or β in equations (1) and (2) would be biased. By eliminating H in equation (3), however, this source of bias is eliminated.

Table 1 presents estimates of the absolute income elasticities for daily and weekly lottery purchases and for the difference between the two elasticities, based on equations (1) to (3) estimated by ordinary least squares and by weighted regressions. The findings clearly support the regressivity of both types of lotteries: estimated income elasticities for both daily and weekly lotteries are significantly less than one. In fact, the income elasticity for the daily lottery is significantly negative, implying that *absolute* expenditures fall as household income rises. Focusing on the difference in incidence between the two games, the estimates of (α − β) clearly indicate that the daily lottery is significantly more regressive than the weekly lottery.

For the sake of comparison, it is also useful to express these findings in terms

Figure 1

Distribution of Expenditures for State Lottery Games and Illegal Numbers



Source: Table 2 and Suits (1977, Table 3).

of Suits's index of regressivity. Table 2 presents the distribution of daily and weekly lottery sales by income when the zip code areas are ranked by median household income. The regressive structures of each game are evident in that low-income households account for a greater portion of sales than of income. These data are represented graphically in Figure 1 along with the distributions given by Suits for state lotteries (covering only weekly games) and the illegal numbers game. Again, the Maryland daily lottery is shown to be more regressive than the weekly game. What is equally interesting is the comparison between the distributions for Maryland and those previously calculated by Suits. The state-operated "numbers" game is only slightly less regressive than the illegal numbers game; the "S" index for the former is −.41, which is quite close to the −.44 obtained by Suits for illegal numbers. As for the weekly lottery, the data for Maryland imply somewhat less regressivity (an index value of −.24) than that calculated by Suits (−.31), although both of these index values for weekly lotteries fall within the range implied by earlier studies of the incidence of lottery expenditures.

Two caveats should be offered regarding the comparison of regressivity indices calculated for the present sample and those calculated by Suits. First, it is possible that the Maryland weekly lottery has in fact become less regressive due to the coexistence of the comparatively more regressive daily game and is therefore not strictly comparable to weekly lotteries in states without a competing daily game. Second, the greater regressivity of lotteries as measured by Suits may be partly attributable to differences in the income measures used in the two studies. Whereas Suits uses individual annual incomes, the present study employs median household incomes for small areas, a measure less likely to contain transitory income elements. As Davies (1960) and Schaefer (1969) have shown, the use of income measures closer to permanent income in calculating the incidence of excise taxes results in less measured regressivity than does the use of annual income. It is therefore likely that, if the distributions in Figure 1 had been based on the same income measure, each pair would lie closer together than they do now.

Conclusion

This analysis indicates that a state-operated "numbers" game has a revenue incidence that is more regressive than conventional weekly lotteries and, in fact, is very close to the incidence that would be obtained if the illegal numbers game could be taxed. If these new daily lottery games are attracting "new" players in addition to veterans of the illegal numbers, therefore, the incomes of the new players do not appear to be markedly higher than those of the veterans. So whether or not states sap any of the illegal gambling demand by introducing daily "numbers" games, they do appear to be increasing the regressivity of state revenue structures.

FOOTNOTES

**I am grateful to David Davies and Daniel Suits for helpful comments, to Robert Seeley for research assistance, to the Maryland Lottery Agency for providing data, and to the University of Maryland Computer Science Center for research support.

[1] See Brinner and Clotfelter (1975).

[2] See Suits (1977) and references listed there. These studies, as well as the present paper, deal only with the incidence of the excise tax implicit in lotteries, and do not deal with the possibly offsetting distributional effect of legalizing lotteries.

[3] *Wall Street Journal*, September 14, 1978, p. 1.

[4] For descriptions of daily lotteries, see "The States Muscle in on the Numbers Game," *Business Week*, May 9, 1977, pp. 113-114, or Michael Weisskopf, "Maryland Gets a Winning Number," *Washington Post*, July 29, 1977, p. A1.

[5] The sample period covered the ten weeks ending June 27, 1978. The weekly lottery figures include subscription books of weekly tickets as well as singly-purchased tickets.

[6] For a description of the income data, see *Rezide* (1977).

[7] The variance of the error terms in the sales equations was assumed to be inversely proportional to the number of area households, thus implying regressions weighted by the square root of the number of households.

[8] Once prize structures are established, it seems reasonable to assume that u and v are both random and independent. If they are not, however, there is no reason to suppose that their difference (u − v) is not random. Only the latter assumption is necessary in applying ordinary least squares to equation (3).

[9]See Musgrave (1959, p. 121n). For applications of a similar constant elasticity model to tax incidence, see Davies (1960) and Schaefer (1969).

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AN ECONOMIC APPRAISAL OF STATE LOTTERIES

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ABSTRACT

This paper examines lotteries in terms of broad considerations of economic efficiency and incidence. A state lottery simultaneously creates a consumption good and taxes that good. The creation activity produces an efficiency gain which is only partly erased by the tax. To measure the incidence of the tax revenue collected, the distribution of lottery purchases across income classes is examined. Five sets of data are presented, and each confirms the regressivity of the lottery tax revenues.

In fiscal year 1973, state-operated lotteries sold over $600 million in tickets, and this source of revenue promises to grow as more states adopt it. By setting aside a portion of the proceeds from their sales for public revenues, these state lotteries implicitly levy an excise tax on the purchasers of lottery tickets. This revenue source has been criticized as being regressive. Yet, as staunch defenders of lotteries point out, no one is forced to buy a ticket, so must not society be better off with a lottery than without? The paradox of a regressive "tax" which produces a social gain can be resolved by recognizing that a state lottery involves at the same time the imposition of a tax and the creation of a good. In comparison to a situation in which a similar lottery exists but is not taxed, the implicit lottery tax imposes a burden which may properly be judged within the framework of traditional tax analysis.[1] But in comparison to the situation which existed before the legalization of lotteries, the joint provision and taxation of this new consumer good yields an efficiency gain. Depending upon which of these two views is taken, therefore, a taxed state lottery may be seen as producing either net tax burdens or net benefits. While it is impossible to obtain comprehensive measures of incidence without knowing the shapes of demand curves across income classes, the incidence of the revenue burdens of current lotteries can nevertheless be measured. The purpose of this study is to clarify these issues and to bring together all available data regarding the incidence of lotteries. Section I describes the growing importance of state lotteries. Sections II and III evaluate the efficiency and the equity of lotteries. The final section summarizes the analysis.

I. *The Dimensions of Current Lottery Activity*

Although the history of government-sanctioned lotteries in the United States can be traced to colonial times, no state-sponsored lottery existed in the twentieth century until 1963, when the New Hampshire Sweepstakes came into being.[2] Since that time, the number of state lotteries has rapidly increased. By 1973, eight states were operating lotteries and by 1974 five more had either begun operating or had approved state lotteries.[3] The potential importance of this source of revenue is evident in the fact that these thirteen states accounted for over 40 percent of the population of the United States in 1970.[4]

Table 1 presents sales and revenue figures for the eight state lotteries which were operating in 1973. The proportion of lottery proceeds given out in prizes is generally fixed by law and ranges from 40 to 45 percent of gross sales. After subtracting administrative costs, which average about 13 percent of sales, the remainder becomes state revenue. These revenues range from about 38 to 48 percent of total lottery sales, and they presently account for about 1 percent of all tax revenues from own sources in these states.

Table 2 highlights the sales or excise tax aspect of these lotteries. In the absence of revenue needs, a lottery could be operated on a break-even basis if the price of a

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Table 1

U.S. State Lotteries 1973 (Fiscal Year)

		(1)	(2)	(3)	(4)	(5)	(6)
			($thousands)				
State	Year Began Operation	Sales	Net Administrative Costs [1]	Revenue to State	Prize Fund	Lottery Revenues as percent of all State Own Revenues [2]	Yearly Per Capita Sales
New Hampshire	1964	6,846	1,186	2,593	3,067	0.9	$ 9.28
New York	1967	130,001	16,162	61,838	52,001	0.7	7.13
New Jersey	1971	112,694	10,159	50,712	51,823	1.9	15.72
Connecticut	1972	34,716	4,616	14,477	15,623	1.2	11.45
Pennsylvania	1972	124,421	12,501	57,520	54,400	1.2	10.55
Massachusetts	1972	70,579	7,925	32,123	30,531	1.5	12.55
Michigan [3]	1972	135,690	12,436	62,193	61,061	1.5	15.29
Maryland [4]	1973	40.094	8,013	16.040	16,040	1.0	10.22

Sources: Questionnaire responses of individual lottery commissions; Tax Foundation, Facts and Figures on Government Finances (New York: Tax Foundation, 1973), pp. 180-181; State populations from U.S. Bureau of the Census, Census of Population.

[1] Operating costs, agents' fees and bank fees less other revenues. Figures for Michigan and Maryland include start-up costs.

[2] Column (3) as a per cent of state revenues from own sources, 1971, converted to 1973 dollars.

[3] Twelve months ending November, 1973.

[4] Estimated on the basis of first 7 1/2 months of operation.

Table 2

The Excise Tax Rates Implicit in Lotteries

State	(1) Cost as percent of Sales Revenue	(2) Tax Revenue as percent of Sales Revenue	[col (2)/col (1)] Excise Tax Rate (Revenue as percent of Cost)
New Hampshire	62%	38%	61%
New York	52%	48%	92%
New Jersey	55%	45%	82%
Connecticut	58%	42%	72%
Pennsylvania	54%	46%	85%
Massachusetts	54%	46%	85%
Michigan	54%	46%	85%
Maryland	60%	40%	67%

Source: Derived from Table 1

ticket just equalled the sum of the average administrative, sales and prize costs. As column (1) indicates, this break-even price would be between 52 percent and 62 percent of the price currently charged by public operators of lotteries. The additional charge is pure tax revenue which a state can readily collect as a monopolistic provider of this good. Therefore, the final outcome is identical to that which would prevail if the state allowed private firms to sell lottery tickets at cost and levied a 61 to 92 percent tax (column 3) on each purchase.

One might argue that the extremely high tax rate reflects a reluctant acceptance of lotteries by policy makers. There is indeed frequent opposition to lotteries on moral grounds and hence the tax could be viewed as a "sumptuary tax," a tax intended to discourage consumption. Unfortunately this perspective appears quite unreasonable when confronted with the reality of extensive advertising and marketing campaigns encouraging lottery sales. The most realistic model of the state lottery is that of a monopoly, except that monopoly profits are now called tax revenues.[5]

II. *Provision and Taxation of Lottery Tickets*

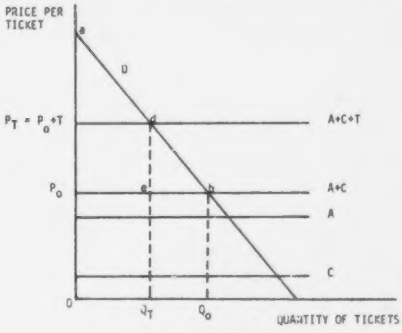
For the purpose of analyzing state-sponsored lotteries in terms of economic efficiency, it is useful to recognize two separable government activities involved in lottery operation. First, the state government legalizes the purchase of lottery tickets and thereby introduces a "new" consumer good. Second, the state places an implicit excise tax on these purchases. Unlike other types of taxation, state-sponsored lotteries yield efficiency gains due to the first function. The second activity, taxation, causes an efficiency loss analogous to the loss from other kinds of taxation which reduces, but does not eliminate, the welfare gain generated by the first activity.

Consider the annual demand for tickets to a lottery promising the possibility of winning one of several prizes, as shown in Figure 1. The income-compensated demand curve, labeled D, reflects the presumed tendency for individuals to respond to lower ticket prices, for given prize opportunities, with greater ticket demand. Whether demand is explained formally in terms of maximization of expected utility or simply in terms of the thrill of playing the game, an increase in the price per ticket has the effect of decreasing the demand for those tickets. The slope of the demand curve reflects the degree of substitutability of state lottery tickets for closely related goods, such as horse racing tickets, raffle tickets, or chances in the illegal numbers game. Curve A, the average prize per ticket, indicates that the lottery agency is committed to expanding the prize pool proportionately with sales so that the expected prize per ticket does not depend on the total number of tickets sold. Curve C represents the administrative and sales costs.[6,7]

Equating supply (A+C) to demand (D), one sees that if the state sold the tickets but did not tax them, a quantity Q_o would be sold at a price P_o. Consumers would pay an amount equal to the rectangle OP_obQ_o and would derive a net gain in welfare equal to the triangular area P_oab, the consumer surplus generated by the introduction of a tax-free lottery. This is the potential welfare gain from the introduction of a lottery.

FIGURE 1

LOTTERY TICKET SUPPLY AND DEMAND



A = Average prize money distributed
C = Average administrative and selling costs
T = Tax revenue per ticket
D = Demand curve

The typical state-run lottery falls short of achieving this gain because it inhibits consumption with a heavy tax burden. Referring again to Figure 1, it can be seen that if the price of a ticket offering the same prizes as before is increased through taxes by an amount T, equilibrium demand now falls to Q_T. The welfare gain from the introduction of the heavily-taxed lottery is the triangular area, P_Tad. The difference between the two triangular areas is the burden of the tax levy, the region P_oP_Tdb. This region is the sum of $P_oP_Tde(=T \times Q_T)$, a rectangular area equal to the tax revenue collected and edb, a triangular area equal to the excess burden or deadweight loss to society. As usual, the more elastic is the demand, the greater is this burden.

In short, any conclusions concerning the efficiency properties of a lottery depend on whether lottery provision can be separated from lottery taxation. The decision both to provide and to tax lottery tickets yields a net increase in consumer surplus, but the decision to impose a tax, given the decision to legalize the lottery, creates a deadweight loss. The only firm conclusion from the standpoint of efficiency is that, as long as some other tax can be raised with less efficiency loss, it would be preferable for states to make lotteries available, but to reduce the rate of taxation on them. It is important to note also that a reduction in the rate of taxation may increase rather than decrease tax revenues, depending on price elasticities.

The incidence of the lottery concerns the distributional impact across income classes and, like the efficiency analysis above, it depends upon the viewpoint taken. If the provision-taxation decisions are considered jointly, incidence analysis involves the distribution of net consumer surpluses (P_Tad) across individuals in different income classes. However, it is impossible to measure these areas across income classes without knowing the shapes of demand curves by income class. Only the revenue burdens can be measured. Therefore, one cannot draw any firm conclusions about the comprehensive incidence of the lottery without *a priori* assumptions about these demand curves.[8] In particular, neither burdens nor net benefits by income classes will necessarily be ranked in the same order as revenue burdens, the measurable entity, unless the corresponding demand curves do not intersect. With these reservations in mind, the incidence of the lottery will be examined in the following section solely in terms of the revenue burdens, which are proportional to lottery purchases.

III. *The Incidence of the Lottery: Empirical Results*

This section presents a summary and analysis of the available evidence on lottery purchases by income class. This evidence includes three surveys of individual households and two sets of more aggregate data.

1. Survey evidence

We were able to obtain the results of three surveys of lottery purchases. The first two were separate surveys of residents of Connecticut and Massachusetts which employed telephone interviews and standard probability weighting of responses.[9] There were 750 respondents in the Connecticut survey and 1000 in the Massachusetts survey. Respondents were asked about their income and the frequency and amount of their lottery purchases. Because of the relatively large sample sizes and sophisticated sampling techniques employed in these surveys, they provide a particularly good basis for analysis of the incidence of lotteries. The third survey was based on responses by lottery winners only and was presented in this *Journal* by Spiro (1974). While this set provides useful data for comparison, the survey itself is marred by a relatively small sample size (271) and an unusually low rate of usable responses (22 percent).

Table 3 presents the estimated differences in expenditures among income groups for lotteries in Connecticut, Massachusetts, and Pennsylvania. Sections (A) and (B) indicate that absolute expenditure rises to a peak in the middle income range and then declines. Generally speaking, families in the highest income group spend slightly less than families in the lowest income group. Families in the \$10,000—\$15,000 range represent the largest source of demand, spending as much as twice the annual expenditure of families at either end of the income pattern. The symmetry of the Connecticut results is particularly striking in its adherence to this pattern, but the same "pyramid" is evident for Massachusetts and Pennsylvania.

Following standard definitions, the implicit lottery tax is defined to be regressive only if the tax revenue collected falls as a percentage of income as income rises. In the case of tax revenue derived from lotteries, since revenues are a constant proportion of the price of a ticket, the tax can be said to be regressive if expenditures on the lottery rise less rapidly than income.[10] This pattern does in fact prevail. Sections (A) and (B) indicate that lottery expenditures for Connecticut, for example, rise by only 50 percent as income rises by 100 percent between the first two income groups, and that expenditures rise by only 33 percent as income rises by 50 percent between the second and third income groups. Thereafter, expenditures fall absolutely and hence the excise tax inherent in the lottery is regressive throughout the income spectrum.

Section (C) reinforces this conclusion by presenting the expenditures as percentages of income. These percentages rapidly decline as family incomes increase. As a first approximation of the tax burden as a percent of income, the entries in columns (7) through (9) can be multiplied by the proportion of purchases which represent tax payments, 42 percent for Connecticut and 46 percent for Massachusetts and Pennsylvania,[11] and therefore, the incidence of the sales tax collected by the lottery is shown to be equivalent to that of an income tax following a schedule of rates approximately 45 percent of the magnitude of the entries of Section (C).

For simplicity, the full tax burden has been understated in the preceding analysis

TABLE 3

Survey Evidence on Lottery Expenditures

Estimated 1973 Expenditure per Family Per Year:

Annual Income	(A) Absolute Expenditure			(B) Multiple of Average			(C) As Percent of Income		
	(1) Ct.	(2) Ma.	(3) Pa.	(4) Ct.	(5) Ma.	(6) Pa.	(7) Ct.	(8) Ma.	(9) Pa.
$ 0-5,000	$22	$28	$21	.66	.80	.67	.55%	.70%	.53%
5,000-10,000	33	35	35	.98	1.00	1.13	.41%	.44%	.44%
10,000-15,000	43	39	36	1.28	1.12	1.16	.37%	.33%	.30%
15,000-25,000	34	27	30	1.01	.77	.97	.17%	.14%	.15%
25,000 or more	21	17	16	.63	.49	.52	.06%	.05%	.04%
Sample Average	$34	$35	$31	-	-	-	-	-	-

Sources: Massachusetts and Connecticut: The means in columns (1) and (2) are approximations based on private surveys conducted by Irwin Harrison of Decision Research Corporation during 1973 in Connecticut and 1974 in Massachusetts. Further details are available from the authors on request.

Pennsylvania: Column (6) is derived from Spiro (1974), Table I, p. 59, which is based on a 1971 survey of Pennsylvania winners. Each entry in column (6) of the current table is the ratio of the corresponding entries of column 3 to column 2 in Spiro's table. Winners are assumed to be a weighted random sample of all purchasers. The mean expenditure for Pennsylvania is calculated as the ratio of total state sales to the number of income-receiving households, or families plus unrelated individuals, in the state in 1970.

The income figures used for the income class entries of section (C) are, respectively, $4000, $8000, $12,000, $20,000 and $37,500, arbitrary choices intended to be representative of each group.

in that there has been no recognition that winnings are subject to federal, state, and local income taxation and that losses are deductible only up to the value of winnings. Because far less than 1 percent of all players are winners, the limited loss deductibility can be ignored. The total tax on lottery expenditures is quite dramatic when this income tax aspect is included. A typical lottery purchaser faces the following prospect. For each dollar he spends on tickets, he can expect to win $.50 to $.45. He must then pay income taxes to various governmental units which will reduce his expected after-tax winnings by perhaps as much as 50 percent. This does, of course, lend a slightly progressive element to the previously described regressive, implicit sales tax. On the other hand, this substantially increases the tax distortion.

2. Supplementary evidence

In spite of the reliability of the above sample information and the consistency of its implications for incidence, there may be an objection to the use of survey data. Therefore, in order to verify these results, additional data was collected and analyzed. The first set of data focuses on $50,000 prize winners of the Massachusetts lottery. The 108 individuals in the sample represent all such winners from the Boston Standard Metropolitan Statistical Area (SMSA) from

TABLE 4

MASSACHUSETTS INCIDENCE: A SECOND ESTIMATE

Median Family Income	(1) Number of Winners as Percent of Total		(2) Population as Percent of Total		(3) Col. (1)/Col. (2) = Multiple of Average Expenditure	
Below $ 5,000	1.8%	22.2%	.9%	27.3%	2.12	.81
$ 5,000- 9,999	20.4		26.5		.79	
10,000-11,999	42.6		33.1		1.29	
12,000-14,999	26.9		26.4		1.02	
15,000 or more	8.3		13.1		.63	

Source: Derived from data on winners provided by Louis Totino of the Massachusetts Lottery Commission and from census tract data for the Boston SMSA for 1970. U.S. Bureau of the Census, *Census of Population: 1970.*

the initiation of the lottery on April 6, 1972 until April 11, 1974. The median income of the census tract of each winner's residence was used as an estimate of his permanent income.[12] Assuming that the number of winners in a given income class is proportional to the number of ticket sales in this class (which is reasonable since winners are selected randomly), a comparison of the distribution of winners with the income distribution for the area yields the necessary incidence information. Table 4 presents a summary of the results.

The results strongly confirm the basic pattern observed in the survey data although, for reasons of sample size, the income group definitions have been altered. The data imply that households in the 0-$10,000 group purchase only 81 percent of the average number of tickets, which is close to the 80 percent figure for income in the 0-$5,000 range and the 100 percent estimate for income in the $5,000-$10,000 range presented in Table 3(B). Furthermore, the new data suggest that peak demand occurs in the $10,000-$11,999 range, and that slightly above average demand is also observed in the $12,000-$14,999 range. A summation of these two middle income group shows expenditures at 1.17 times the average expenditure, quite close the 1.12 estimate derived above.

The second supplementary study examined county distributions of $25 in-state winners in the Michigan lottery during 1973.[13] There were 900,431 of these winners distributed among the 83 counties of Michigan. By assuming ticket purchases to be proportional to the number of $25 winners, we used the winner data to estimate total county sales. Multiple regression techniques were then used to predict sales as a percent of income from county economic and demographic variables. Two available demographic variables, the county population density and the percent of county population either "foreign born" or "native of foreign or mixed parentage," were also included. Population density was used to control for possible urban-rural differences in tastes or in the availability of lottery tickets. Percent foreign was introduced to reflect the traditional presence of government lotteries in many European countries. The estimated model is described in the Appendix, but Table 5 presents estimates based on the point estimates of that estimated equation. As Table 5 shows, the regression estimates imply an expenditure pattern similar to those previously observed.

While these regression estimates lack the precision to stand alone as conclusive evidence of the expenditure pattern of lottery purchases, it is reassuring that they point

TABLE 5

REGRESSION ANALYSIS INCIDENCE ESTIMATES BASED ON MICHIGAN COUNTY DATA

Annual Income	Expenditure	Expenditure as Percent of Income
0-$ 5,000	$17	.65%
$ 5,000- 10,000	$35	.45%
10,000- 12,000	$38	.35%
12,000- 15,000	$37	.28%
15,000- 25,000	$30	.15%

in the same direction as the other evidence presented above. Taken together, the five sets of data presented in this section constitute rather strong evidence of the regressive pattern of lottery expenditures.

IV. *Summary*

The growing popularity of state-run lotteries is clear evidence that states are actively pursuing new revenue sources and that the public is being provided with a new "good" which it eagerly wants. Accepting an individualist rather than a paternalistic social welfare ethic, an economic appraisal of the current state lotteries suggests that, taken as a whole, they are beneficial in an efficiency sense because they provide net benefits to purchasers. However, the problem remains that although the current legal lotteries may be better than no lotteries at all, they do constitute a particularly inequitable revenue base. The very high profit that a state receives can be fairly described as the product of a sales tax at a rate of 60–90 percent on an expenditure which is a more substantial portion of lower income budgets than of upper income budgets. Although purchasers do receive benefits from lottery purchases, the revenue collected constitutes a regressive tax and is all the more objectionable in light of the fact that many states appear to have adopted lotteries rather than implementing or expanding progressive income taxes. By lowering the implicit tax rates on the purchase of lottery tickets, states could improve efficiency. And if individual demand curves have a similar shape across income classes, lowering the tax rate would also increase the progressivity of net benefits obtained by ticket purchasers.

APPENDIX

Consider the following model of demand for tickets as a fraction of income in which S_{ij} symbolizes sales to an individual in the i^{th} income class in the j^{th} county, and Y_{ij} is a representative value of the income for that income class:

$$\frac{S_{ij}}{Y_{ij}} = a_0 + a_1 Y_{ij} + a_2 Y_{ij}^2 \quad (1)$$

$$S_{ij} = a_0 Y_{ij} + a_1 Y_{ij}^2 + a_2 Y_{ij}^3 \quad (2)$$

$$\frac{\Sigma_i w_{ij} S_{ij}}{\Sigma_i w_{ij} Y_{ij}} = a_0 + a_1 \frac{\Sigma_i w_{ij} Y_{ij}^2}{\Sigma_i w_{ij} Y_{ij}} + a_2 \frac{\Sigma_i w_{ij} Y_{ij}^3}{\Sigma_i w_{ij} Y_{ij}}, \text{ or} \quad (3)$$

$$\overline{S}_j/\overline{Y}_j = a_0 + a_1[(\overline{Y}_j^2)/\overline{Y}_j] + a_2[(\overline{Y}_j^3)/\overline{Y}_j] \quad (4)$$

w_{ij} = Percentage of county j population falling in i^{th} income class.[14]

The basic model expressed by equation (1) assumes that family lottery expenditure as a percentage of income can be expressed as a quadratic function of income. Equations (2), (3) and (4) develop the final relation estimated with the county data; average sales per family as percent of mean family income were regressed on the ratios of the second and third moments of income about the origin to mean income. The procedure of summarizing county income distributions in polynomial expressions makes it possible to reflect fully the income distribution of each county without sacrificing an excessive number of degrees of freedom. It is strictly analogous to the Almon polynomial lag procedure commonly used with time series analysis.[15] Two available demographic variables, the county population density and the percent of county population either "foreign born" or "native of foreign or mixed parentage," were also included. Population density (DENSITY) was used to control for possible urban-rural differences in tastes or in the availability of lottery tickets. Percent foreign (PCFOR) was introduced to reflect the traditional presence of government lotteries in many European countries.

The estimates for the basic model equation are presented in equation (5).

$$\begin{aligned}(\overline{S}/\overline{Y}) &= \underset{(2.01)}{7.40} - \underset{(.02)}{.48}[\overline{Y^2})/\overline{Y}] \\ &= \underset{(.0037)}{.0085}[(\overline{Y^3})/\overline{Y}] + \\ &\quad \underset{(.20)}{.45}\ \text{DENSITY} + \underset{(1.41)}{.95}\ \text{PCFOR} \quad (5)\end{aligned}$$

R^2 = .167; S.E. = .80; S.E./MEAN = 29.96%

Standard errors are presented below each coefficient. $\overline{S}$ equals average family expenditures. $\overline{Y}$ equals family income in thousands of dollars. All coefficients have the correct sign and, with the exception of percent foreign, are significantly different from zero at the 95 percent confidence level. These point estimates are used to construct Table 5 for comparison with the survey results presented earlier for other states. Representative values were chosen for density and percent foreign. The results for the 14 narrow income classes used for the polynomial structure (see footnote 14) were aggregated to the five wide income classes used in the sample surveys using the corresponding proportions of families in each income class for the state of Michigan.

In additional tests, the specific point estimates varied according to the particular functional specification employed, although regressivity was generally confirmed. Two types of alterations were made in the basic equation. First, interaction terms including income and density measures were estimated, but multicollinearity precluded precise estimates of coefficients. Second, higher order polynomial terms were tried, but the high degree of collinearity between the various moments about the origin again inhibited a precise identification of the pattern of expenditures across income classes.[16]

FOOTNOTES

[1] The issue of lotteries as sources of public revenue has been previously addressed by: Robert K. Kinsey, "The Role of Lotteries in Public Finance," *National Tax Journal*, Vol. 16 (March 1963), pp. 11–19; R. Clay Sprowls, "On the Terms of the New York State Lottery," *National Tax Journal*, Vol. 23 (March 1970), pp. 74–82; Frederick D. Stocker, "State Sponsored Gambling as a Source of Public Revenue," *National Tax Journal*, Vol. 25 (September 1972), pp. 437–441; Michael Spiro, "On the Tax Incidence of the Pennsylvania Lottery," *National Tax Journal*, Vol. 27 (March 1974), pp. 57–61; Ronald D. Watson; "Lotteries: Can the Public and State Both Win?" *Business Review*, Federal Reserve Bank of Philadelphia, July 1974; Jess Marcum & Henry Rowen, "How Many Games in Town?: The Pros & Cons of Legalized Gambling," *Public Interest*, No. 36 (Summer 1974), pp. 25–52.

[2] For a history of the lottery in the U.S., see J. S. Ezell, *Fortune's Merry Wheel*, (Cambridge: Harvard University Press, 1960).

[3] The original states were New Hampshire, New York, New Jersey, Connecticut, Pennsylvania, Massachusetts, Michigan, and Maryland, and the newcomers are Maine, Rhode Island, Illinois, Ohio, and Delaware. For a more recent evaluation of the performance of these lotteries, see "More States Turn to Gambling to Raise Money in Hard Times," *U.S. News and World Report*, Vol. 78 (June 30, 1975), pp. 22–23.

[4] U.S. Bureau of the Census, *Census of Population, 1970, U.S. Summary* (Washington: Government Printing Office, 1972).

[5] Officials are well aware, however, that state lotteries are a monopoly of *legal* gambling alone and that the illegal numbers constitute a substitute. In fact, the hope of many officials is that state lotteries will decrease illegal activity, but what effect lotteries have in that direction is unclear. For example, see Gerald Eskenazi, "New York Off-Track Betting Found Bonanza for Crime," *Boston Herald Traveler*, January 10, 1974, p. 2.

[6] Spiro (1974) states that the tax rate which maximizes revenue when demand is linear and $C = 0$ is 50 percent of the ticket price, or $T = 1/2P_T$, implying that $T = P_o = A$. However, by taking a general demand curve $Q = a - b(P + T)$ and maximizing revenue QT, it can be seen that the optimal tax per ticket is $T^* = (a - bP_o)/2b$ and not $1/2P_T$.

[7] Economies of scale in lottery operation are conceivable and would produce a declining cost curve (C). However, this phenomenon would not change any of the qualitative conclusions of the current analysis.

[8] This general notion of incidence—the distribution of changes in utility—has been developed in a number of articles on optimal taxation and public sector pricing. For example, see Martin S. Feldstein, "Distributional Equity & the Optimal Structure of Public Prices," *American Economic Review*, Vol. 62 (March, 1972), pp. 32–36.

[9] Surveys in Connecticut and Massachusetts were conducted by Irwin Harrison of Decision Research Corporation. A summary of the Connecticut survey is contained in "Lottery's Not the Best Bet As Tax Aid, Majority Feels," *The Hartford Times*, April 10, 1974, p. 1.

[10] If incidence is viewed in terms of permanent rather than current income—which is not a clearly superior viewpoint—these results probably bias the incidence estimates toward regressivity. For a fuller discussion of this point as it relates to other taxes, see Jeffrey Schaefer, "Sales Tax Regressivity under Alternative Tax Bases and Income Concepts," *National Tax Journal*, Vol. 22 (December 1969), pp. 516–527. An attempt to measure incidence in terms of permanent income is described below.

[11] See column (2) of Table 3. The equivalent income tax rate is defined as the ratio of tax revenue to income. This ratio equals the product of the ratios of tax revenue to expenditures and expenditures to income.

[12] This follows the approach in Margaret G. Reid, *Housing and Income*, (Chicago: University of Chicago Press, 1962).

[13] Winnings from November 1972 to December 1973 were proportionately reduced to reflect 12-month rates.

[14] Fourteen income classes are used in the analysis. The ranges and the representative values used are the following:

Range	Representative Value	Range	Representative Value
$ 0–$ 999,	500	$ 7,000–$ 7,999,	7,500
1,000– 1,999,	1,500	8,000– 8,999,	8,500
2,000– 2,999,	2,500	9,000– 9,999,	9,500
3,000– 3,999,	3,500	10,000– 11,999,	11,000
4,000– 4,999,	4,500	12,000– 14,999,	13,500
5,000– 5,999,	5,500	15,000– 24,999,	20,000
6,000– 6,999,	6,500	25,000 or above,	37,500

Census income data were extrapolated to conform to income brackets expressed in 1973 dollars, using the assumption that incomes rose at the rate of inflation over the period 1970 to 1973.

[15] S. Almon, "The Distributed Lag Between Capital Appropriations and Expenditures." *Econometrica*, Vol. 33 (1965), pp. 178–196.

[16] Zvi Grilliches demonstrates the likelihood of similar problems for time-distributed lags in "Distributed Lags: A Survey," *Econometrica*, Vol. 35 (January 1967), pp. 16–49.

Senator **Durenberger**. Before I conclude, I especially want to thank the Congressional Research Service. They always do a fantastic job in everything, but they have done a particularly good job today preparing us and our staff with an overview for this hearing.

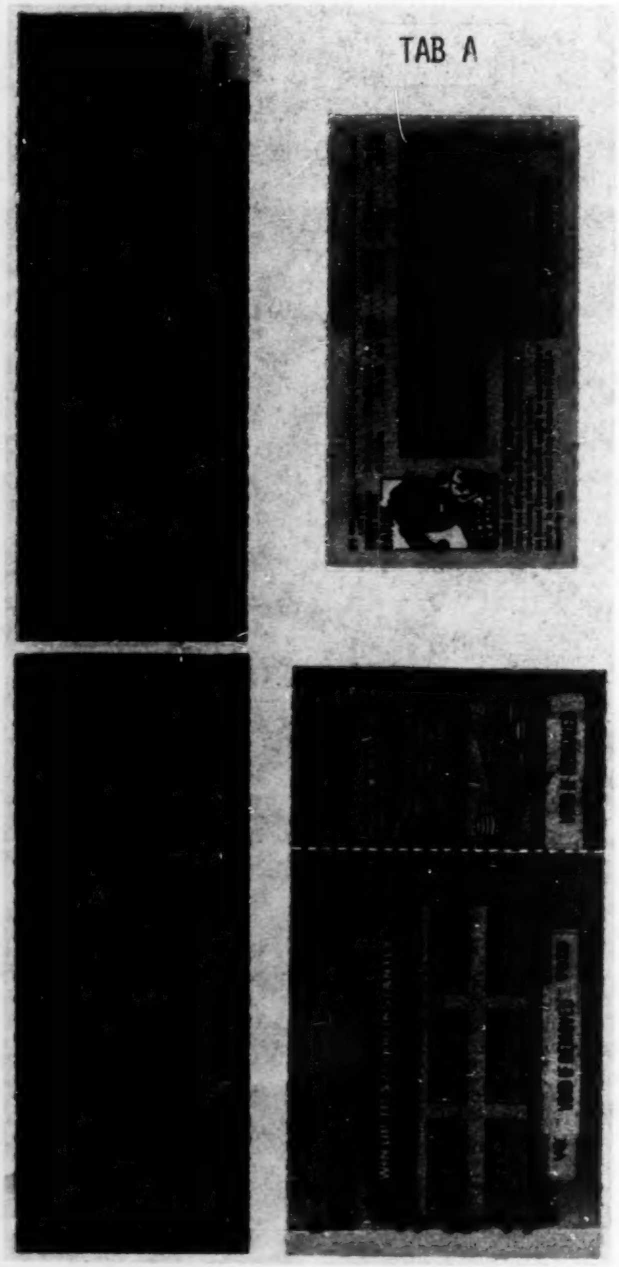
Thanks to all the witnesses.

The hearing is adjourned.

[Whereupon, at 12:17 p.m., the subcommittee recessed, to reconvene subject to the call of the Chair.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

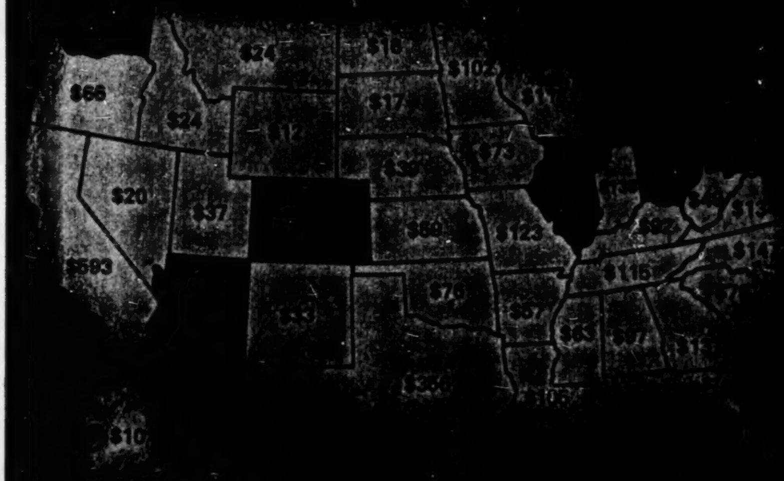
LOTTERY MATERIAL SUBMITTED BY DANIEL W. BOWER, PRESIDENT, SCIENTIFIC GAMES, INC.



TAB A

TAB B

IS YOUR STATE LOSING ITS SHARE OF $3,200,000,000?



A well run state controlled and state operated Lottery can generate significant new voluntary revenues to meet the revenue needs of state governments. In 1983 the 18 established lotteries (including the District of Columbia) generated over $6,000,000,000 in gross revenues ($62.63 per capita) and approximately $2,400,000,000 in net revenues for their 95,800,000 citizens. Similar performance by the 33 non lottery states would generate approximately $8,092,000,000 in annual gross revenues and in annual net revenues (40%). The annual net revenues for each of the 33 non lottery States is shown above in millions of dollars.

Scientific Games will be pleased to provide state officials with detailed information, revenue projections, expert testimony, and model legislative bills for state operated lotteries.

Scientific Games is proud to have been selected as lottery start up consultant and ticket supplier for all 6 of the new state lotteries started up in the United States since 1976.

Contact Robert L. Mote, General Counsel.

SCIENTIFIC GAMES, INC.
a subsidiary of Bally Manufacturing Co.
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Associate Member National Association of State Lotteries
Associate Member International Association of State Lotteries

QUESTIONS AND ANSWERS ABOUT A STATE LOTTERY TAB C

Prepared by Robert L. Mote, Scientific Games, Inc., May, 1984

Question: **How much revenue will a state lottery produce?**

Answer: Calendar year 1983 statistics indicate that total gross lottery sales in the U.S. exceeded $6.0 billion. This means the average annual lottery spending was about $63.50 per capita. A reliable means of predicting your state's likely gross lottery sales is to multiply this number by your state's total population. On the average, about 35%-40% of gross lottery sales goes to the state as profits from the lottery.

Question: **Are government lotteries a recent fad?**

Answer: No! Reportedly, lotteries were used as long ago as during the ancient Roman Empire when Augustus Caesar used lottery profits to rebuild Rome. Lotteries were used in early American history to found the Jamestown Colony, build such universities as Harvard and Columbia, and support other public works. George Washington, Ben Franklin and Thomas Jefferson all supported and used lotteries. In fact, Thomas Jefferson once said that "Lotteries are a wonderful thing; they tax only the willing." Over 112 countries around the world sponsor government lotteries, including most of Western Europe, Canada, Mexico, Central and South America. The modern U.S. lottery started in 1964 in New Hampshire.

Question: **How many states have lotteries?**

Answer: In the continental U.S., seventeen states and the District of Columbia have lotteries. (Puerto Rico and Guam also have lotteries.) The 17 states are: Connecticut, New York, Vermont, Delaware New Jersey, New Hampshire, Massachusetts, Maine, Ohio, Michigan, Illinois, Rhode Island, Maryland, Pennsylvania, Arizona, Colorado and Washington. The population of the above states is about 96,000,000, over 40% of the nation's population.

Question: **Are lotteries popular?**

Answer: Yes. More people participate in state-run lotteries than in any other form of legalized gaming. In present lottery states, 75% of the residents of those states favor the lottery programs. At one time or another 60% of the residents of a lottery state will buy lottery tickets. Polls taken in non-lottery states such as California, Nebraska, Missouri, Florida and many others indicate overwhelming support (two or three to one) for state-run lotteries.

Question: **Has any lottery in modern times ever failed ... or failed to show a profit? How are sales doing?**

Answer: No lottery has ever failed...or failed to show a profit. Sales are soaring! In 1982 lottery ticket sales exceeded $4.2 billion ... with lottery profits exceeding one and a half billion dollars. In fiscal 1983, lottery ticket sales exceeded $5.28 billion ... with lottery profits exceeding $2.2 billion. In calendar year 1983, sales exceeded $6.0 billion ... with profits exceeding $2.4 billion.

Question: **What do states do with their lottery profits?**

Answer: Most states put their lottery profits into their general funds. However, some states earmark lottery profits for specific purposes. Michigan, New Hampshire, New York and New Jersey uses their profits to aid education ... Pennsylvania donates its profits for senior citizen programs ... Massachusetts shares its profits with all the towns and cities in Massachusetts ... Colorado earmarks some of its profits for parks and recreation.

Question: **Is a state-run lottery the answer to the economic problems currently facing my state?**

Answer: That depends on the severity of the problem. Certainly a state-run lottery is not the answer to all of the financial ills that any state may face at any time. At the same time, in many states the lottery has stabilized state taxes. Connecticut raises $70,000,000 yearly from its lottery, Pennsylvania, almost $400,000,000; Michigan, $220,000,000; and little old Rhode Island almost $35,000,000 yearly. All of this revenue is raised voluntarily. Needless to say, there are people who oppose lotteries or gambling in any form. These people are free not to buy tickets.

Question: **What happens to the lottery dollar and how does a lottery affect the economy of a state?**

Answer: Generally, 45¢ to 50¢ of every dollar is returned to ticket buyers in the form of prizes ... 5¢ to 7¢ of every dollar is paid to local merchants as commissions for selling tickets ... about 5¢ to 10¢ of every dollar is used to pay lottery employees, rent and utility bills for office and warehouse space, to purchase lottery products from established and experienced vendors, to establish a computer system, and to promote the lottery ... and the balance, about 35¢, ends up as the profit for the state. Almost all lottery dollars stay in the state.

Question: **Are lotteries difficult to administer?**

Answer: Absolutely not! Modern-day lotteries have been in existence for 20 years (since 1964) and there certainly isn't any "mystery" concerning their operations. Present lottery states are only too happy to share their experiences and their techniques with new entrants into the lottery field. Most states have lottery commissions overseeing their operation. All lotteries have full-time Directors or Executive Secretaries ... people with extensive backgrounds in lottery operations. Few problems have arisen in the lottery industry during the past twenty years. When problems have arisen the industry has been quick to react. Recent studies indicate that a majority of ticket buyers believe that lotteries are well run and honest. Lottery staff can run from 50 to 150 depending on the size of the state.

Question: **What type of lottery games do states use?**

Answer: State lotteries use a variety of lottery games, depending on the preferences of their citizens. The most common are instant games, where the player buys a $1 ticket, scrapes off a removable "rub-off" covering to expose play numbers, and determines instantly whether he has won a prize. The computerized "numbers game" was introduced to compete with the illegal numbers game (and has done so successfully). In that game, a player picks a three or four-digit number, is given a receipt for that number issued by a computer terminal, and tries to match his number to numbers drawn by the lottery at the end of the day. In the newly-popular "lotto game", which has long been popular in foreign countries, a player picks six numbers out of a possible 36, 40 or 44 numbers, and waits until a drawing at the end of the week to determine whether he has won the "jackpot" or a variety of lesser prizes. In the emerging "video lottery", designed to appeal to a more "up-scale" market, a player operates a type of video game machine; besides the amusement value from the play, the outcome of the play determines randomly whether the player wins a prize. The most traditional lottery is the "weekly game" which, like church raffles or the Irish Sweepstakes, involves the purchase of a ticket with a number on it which a player tries to match to a number drawn periodically by the Lottery in order to win a prize.

Question: **Where are lottery tickets sold?**

Answer: Most states license retail establishments that are easily accessible to the public such as drug stores, supermarkets, convenience stores, newsstands and package stores. As a rule of thumb one license is granted for each 1,000 of population. A state with a population of 3,000,000 might have 3,000 licensed agents. As stated previously, these agents usually receive 5% to 7% of their sales as commisisons for selling lottery tickets. In granting licenses lottery agencies will investigate each prospective licensee as to past criminal records ... their financial condition ... their ability to serve the public ... and their general fitness to serve as agents.

Question: **Aren't lotteries supported by the poor people for the most part?**

Answer: Definitely not! Extensive studies of state-run lotteries indicate that an overwhelming majority of ticket purchasers are in the $12,000 to $28,000 salary range. Whereas citizens in the low income range buy lottery tickets, they buy fewer tickets proportionately than their percentage of the population.

Question: **How much money does the average citizen spend on lottery tickets per year?**

Answer: The "per capita" spending on lottery tickets in 1983 was about $63.50 annually. As only half a state's population is expected to buy tickets. Actual expenditures for tickets is about $125 ... or about $2 a week.

Question: **How about "organized crime" and lotteries?**

Answer: There is absolutely no evidence of any state lottery being infiltrated by "organized crime." As a matter of fact some lottery Directors believe that state-run lotteries have taken customers away from illegally-run numbers games. A Connecticut study came to the conclusion that the state's legal games had, in fact, impacted illegal wagering in that state. A 1976 report of the National Gambling Commission stated that 11% of all Americans wager illegally. In lottery states that percentage drops to 6% ... almost a 50% decrease in illegal wagering. Modern day lotteries are run by state governments and there are no avenues available for illegal operators to ply their trade. There is no similarity between state-run lotteries and casino gambling or horse racing. The latter two are usually operated by private individuals or corporations that are licensed by the state.

Question: **What about the social implications of advocating a form of legalized gambling as a method of raising revenue?**

Answer: People have been known to gamble for thousands of years and will continue to gamble regardless. Most sociological studies (and there are many) have concluded that state-run lotteries are a "harmless" form of legalized gambling. A comprehensive, independent, state-commissioned study completed in 1981 concerning Connecticut's legalized gambling programs gave the state "a clean bill of health" ... "no increase in welfare cases, no increase in bankruptcies, no increase in compulsive gambling, and no increase in unemployment." Newsweek concluded an article on gambling in its March 3, 1980 issue by stating: "The only games that apparently pose no real threat of addiction are state lotteries. That is because they don't have enough action."

Question: **In the many states with an established horse racing industry, won't the lottery hurt that industry?**

Answer: No! Experience has shown that the introduction of state-operated lotteries has not caused a decrease in the amount of money wagered in the horse race/parimutuel industry. This may be because the lottery player and the race track attendant are two different gaming patrons and that the lottery market and the parimutuel market are two different "demographic" markets. Whatever the explanation, all available studies indicate that there is no "competition" between lotteries and horse racing. In fact, in lottery states, the relationship between the lottery and the racing industry has developed into a cooperative and mutually supportive one.

EXPLANATION OF OPERATION OF A STATE LOTTERY

Prepared by Robert L. Mote, Scientific Games, Inc., May 1983

Most state lotteries are operated in a generally similar way. The majority of the state lotteries are overseen by a Commission (Delaware, Michigan and New York are exceptions). The Commission is responsible for broad policy making decisions, promulgation of appropriate rules and regulations to govern the lottery and review of proposed contracts between the lottery and outside vendors. The actual day-to-day administration of the lottery is the responsibility of the lottery Director, who is a full time employee and generally has experience in the operation of state lotteries. In turn, the Director will have department heads in such areas as security, administration, marketing, and data processing. And, of course, there will be a lottery staff of full time employees in each of these areas. Depending on the size of the state, the total number of full time employees will vary but one can expect the staff to number between 75 and 150.

Although the lottery is operated by the Director and his staff, lottery tickets are actually sold by licensed agents. These licensed agents are generally retailers such as convenience stores, newsstands, package stores, supermarkets, etc. The Director will accept applications from all those eligible to be licensed agents and, after a background check, the retailers will be licensed and will sell lottery tickets subject to rules and regulations of the Commission. The agents will be compensated for sales of lottery tickets by receiving a commission on such sales. The most common retailers' commission in lottery states now is 5%.

After setting up its staff and licensing its agents, the lottery must determine what type of game it will run. There are a variety of lottery games available, but the two most common are what are called "instant games" and the "on-line games" or "numbers game". An instant game is played by the use of tickets which have hidden symbols concealed by a removable covering. The player purchases the ticket, removes the covering, and determines instantly whether he has won a prize and, if so, the amount of the prize. He then redeems his winning ticket in a manner established by the lottery. For small prizes, many states establish a system for the payment of the winning ticket by the licensed agents themselves. Larger prizes are redeemed through claim centers staffed by employees of the lottery. The instant tickets are constructed in such a way so that winning tickets can be validated to prevent any tampering, counterfeiting or fraud.

The on-line numbers games take a variety of forms. A typical numbers game is a 3-digit daily numbers game. In order to run this game, the lottery distributes small computer terminals to its licensed agents which are comparable in size to cash registers. These terminals are connected "on-line" to a large central computer at lottery headquarters. A player selects a 3-digit number ranging from 000 to 999. He then tells the sales agent his selection along with the amount of money he wants to play on that number. The agent enters the number on his terminal (which simultaneously transmits the entry to the central computer) and the terminal issues the player a ticket. That ticket, like an instant ticket, has various security and validation features which protect against any tampering, counterfeiting or fraud. At the end of the day, the lottery randomly draws a three-digit number and the player who has a ticket with that number wins.

Although all aspects of the operation of a lottery are in-state, the lottery will have to purchase its instant tickets or on-line system from one of the established and experienced vendors in the United States. At this time, there are 3 primary instant ticket vendors and 3 primary "on-line" vendors. The lottery will generally pay such vendors approximately 2-3% of the total lottery gross revenues for the purchase of lottery products. That money is the only money which will be spent outside of the state.

Of course, there will be a "lag time" between the date the lottery law becomes effective and the date lottery tickets are first sold. It is during this period that lottery personnel are hired, the lottery administration is established, and the lottery vendor is chosen. Usually, there will be interim funding of the lottery during this "lag time" and that money is invariably repaid within 6-8 months of the effective date of the lottery law.

INTERIM FUNDING OF A LOTTERY AGENCY

Prepared by Paul Silvergleid, Consultant and Past Chairman

Of The Connecticut Gaming Commission, February 1983

It should be easily understood that any agency formed to implement a state lottery no matter how structured must be afforded interim funding. A "rule of thumb" that can be considered in gauging the sum to be appropriated is $1 in funding for each state resident. A state with 3,000,000 residents should set aside at least $3,000,000. A minimum amount needed in any state regardless of its population is $1,500,000. The following paragraphs describe the time frames involved in the establishment of the lottery's first game and where the money will be needed.

If a lottery bill became effective on July 1 in any year, as an example, the appointments to the Commission and the hiring of a full time Director might take place within the next 30 to 45 days. If a bid was prepared within the next 30 to 45 days to purchase tickets for the state's first lottery game and then an award was made to a vendor to provide those tickets by mid-October those tickets might be delivered in the state by early or mid-December. While all of the aforementioned is going on, the Commission will have time to promulgate lottery rules and regulations and the Director will be forming the lottery administration ... who in turn will help license the hundreds of ticket sales agents throughout the state. By the end of December, or six months after the effective date of the legislation, lottery ticket sales should commence.

Based on the scenario described in the previous paragraph, lottery ticket sales will commence around the first of the year with the tickets for the first game "sold out" by the end of February ... or eight months after the effective date of the legislation. At this point in time a "cash flow" (money and profit coming into the agency from the sale of tickets) will have started and the agency will be in a position to return all of the "borrowed money" back to the state treasury. Also, from that point on the agency will be self-sufficient, requiring no additional funding.

The funds provided the agency initially (the interim funding) will be used to pay rent and utility bills for office and warehouse space ... for payroll costs for the lottery employees for at least eight months ... to purchase a small computer system for the lottery agency's "accountability" programs ... to purchase vehicles for the agency's field staff and vehicles to be used to deliver tickets throughout the state ... to advertise and promote the first lottery game ... to print all of the necessary forms and pamphlets ... and to purchase millions of instant lottery tickets for the first game. Most of the above items must be paid for before the "cash flow" begins in February.

If a state with a population of 3,000,000 provided its new lottery agency with $3,000,000 in interim funding, for example, chances are that that state will order at least 30,000,000 instant lottery tickets for its first game and based on prior experiences will sell those tickets out in six to eight weeks. Therefore by the end of February (assuming tickets were placed on sale at the beginning of January) the state will have sold $30,000,000 worth of tickets and will have realized a profit of $12,000,000. At this point in time, the $3,000,000 can be returned to the state treasury along with another $5,000,000 to $6,000,000 in profits, with the agency holding onto the balance to carry out its activities until the end of the fiscal year.

There are two points to remember. First, the longer it takes the state to implement the lottery and its first game, the more dollars would be needed in interim funding. Secondly, if it is the state's desire to have the money "borrowed" by the lottery agency repaid within the same fiscal year, the above scenario sees that occurrence happening with great ease and a good deal of leadway.

One of the fastest lottery "start-ups" was the recent implementation of a lottery in Washington State. There, the lottery law was signed by the Governor on July 16, 1982. By the end of that month, the Lottery Commissioners were appointed and the full-time Lottery Director was hired. Hiring of the lottery staff, licensing of sales agents, and promulgation of rules and regulations proceeded simultaneously. By early August, a contract was awarded to an instant ticket vendor for the provision of start-up consulting services and the purchase of 50,000,000 instant lottery tickets. The lottery's first instant game began sales on November 15, 1982, with approximately 4,000 agents on board and the 50,000,000 tickets distributed throughout the state. Virtually all 50,000,000 $1 tickets were sold out by Christmas — in a state with 4.1 million people. The state netted about $20,000,000. In other words, in about five months after the lottery law went into effect, the lottery was able to repay the interim funding and began showing substantial profits.

April 5, 1983

FINAL JOINT LOTTERY SUBCOMMITTEE REPORT

Senator Henry E. Braden, IV
Chairman

Representative Jamie Fair
Vice Chairman

Senate Judiciary B Committee

Senator Barham, Chairman
Senator Braden
Senator Cross
Senator Landry
Senator Lauricella
Senator Randolph
Senator Neeson

House Civil Law and Procedure Committee

Representative Charbonnet
Representative Fair
Representative Johnson
Representative McVea
Representative Miller
Representative Watermeier

Joint Lottery Subcommittee Report

Comprised of Senate Judiciary B Committee
and House Civil Law and Procedure Subcommittee

INTRODUCTION

The joint lottery subcommittee held its first meeting on September 22, 1982. At this basically organizational meeting, the staff was instructed to begin to compile information, to submit to the subcommittee, on the lottery. The subcommittee also expressed an interest in hearing testimony from various aspects of the lottery such as administrative heads, representatives from the private industry involved, religious groups and people who live in lottery states. This report is written from the information gleaned by this active subcommittee from September 22, 1982 until February 24, 1983.

EARLY LOTTERY HISTORY

Lottery, according to Webster, is "a drawing of lots in which prizes are distributed to the winners among persons buying a chance." The lottery is not an invention of contemporary America. Lotteries have been in existence for generations throughout the world. Lotteries were used by kings and emperors throughout history to finance building projects or to increase revenues. In England, money raised by a lottery paid the cost of colonizing Virginia. The Congress of 1776 provided a National Lottery strongly supported by Thomas Jefferson and others of the nation's founding fathers. Some 70 acts were passed by Congress before 1820 authorizing lotteries for the building of schools and roads and other public projects. Lotteries helped erect Harvard, Yale, Brown, Dartmouth, Columbia and many of the nation's other prestigious academic institutions. In 1751 and 1754 Benjamin Franklin helped sponsor a series of "Academic Lotteries" and helped found the University of Pennsylvania.

CONTENTIONS, PRO AND CON

Pro:

1. State operated lotteries are the fastest-growing segment of the legalized gambling industry despite the nationwide recession. Bets in the state lotteries are generating a record amount of almost $3.6 billion.

2. State lotteries are unique in state gov[illegible] that they are basically a business—honestly run with little or no political [illegible]

3. The lottery is a purely voluntary activity. You don't have to gamble, but if you do, at least a percentage of the money goes to public use. As Thomas Jefferson once stated: "The lottery is a wonderful thing; it lays the taxation only on the willing."

4. Law enforcement officials where lotteries legally operate, claim there have been no serious crime problems or corruption associated with the gambling operations.

5. Modern lottery games are protected by rules and regulations, legislative mandates, auditors, security personnel, hot lines and criminal prosecution.

6. The lottery is not only a revenue producer for the state; it is also good for private business.

7. The average lottery ticket buyer comes from the middle class, contrary to some reports that only low-income people buy lottery tickets.

Con:

1. Both the Louisiana Constitution of 1921 and of 1974 expressly prohibit a lottery.

2. A lottery is harmful to people in that it is a form of a regressive tax, which is one paid by those who can least afford to pay it, and that it can lead to compulsive gambling.

3. Historically, lotteries have been difficult to control; and even with the progress that has been made in "cleaning up" the operation of lotteries in other states, problems still exist. Comtemporary problems that almost defy solution are:

a. Danger of political interference

b. Lack of confidence in government created by the lottery

c. Distraction of elected officials from facing up to their responsibility of developing adequate and equitable systems of public financing.

4. The lottery, like other forms of gambling, is based upon a philosophy which is contrary to our Judeo-Christian ethic. The Bible instills a work ethic; gambling instills a something-for-nothing attitude.

5. Funds to operate government should not be derived from lotteries and other forms of gambling that inflict devastating social costs on the general quality of life.

6. A lottery is a form of gambling, which is basically morally wrong.

GENERAL INFORMATION

The following five paragraphs comprise an excerpt from "The Success of Today's State Lotteries" by Diane V. Burke, Public Gaming:

"They make it look easy. In a nation riddled with faltering, floundering businesses, they consistently log spectacular profits, in some cases ranging in the hundreds of millions of dollars.

And what amazes many is that they are run by government.

They are the North American lotteries. Numbering 18 in the United States and four in Canada, they comprise one of governments most successful business ventures and one of government's most painless sources of revenue.

The overwhelming success of today's lotteries is not without irony, for the legalization of many lotteries was a process fraught with heavy resistance. Lottery advocates in non-lottery states face vocal opposition in attempts to institute public games.

Yet should their pro-lottery battle prove successful, odds are that these advocates will see the lottery return immediate and sometimes spectacular profits."

There are five principal lottery games today, as follows:

1. Instant - scratch-off covering material to disclose winners instantly - price $1
2. 3-Digit - (Numbers Game) - choose any 3-digit number, drawing daily - price $.50 to $1
3. 4-Digit - (Numbers Game) - choose any 4-digit number, drawing daily to weekly- price $.50 to $1
4. Lotto - choose 6 out of 42 numbers for example, weekly drawings - price $1
5. Passive - Pre-numbered tickets with weekly or less frequent draws, (of importance in Canada) - price $.50 to $10

The lotteries of modern day existence were enacted into their respective 18 states (including District of Columbia) as follows:

1964	New Hampshire
1967	New York
1971	New Jersey
1972	Connecticut
	Massachusetts
	Michigan
	Pennsylvania
1973	Maryland
1974	Illinois
	Maine
	Ohio
	Rhode Island
1975	Delaware
1978	Vermont
1981	Arizona
1982	District of Columbia
	Washington
1983	Colorado

Why are more and more states looking at lotteries? In fiscal 1983, practically all of the states are projecting budget deficits by year end. Further, there has been a solid record established in North America for dependable revenue generation, particularly in the past five years, for honesty and for the popularity of the games. There was not one lottery that failed to have at least a 5% increase from fiscal 1981 to fiscal 1982 as shown from the following chart:

GROWTH OF LOTTERY GROSS REVENUES

(In millions of $)

	1982	1981	% Incr.
Ariz.	137.0	-	-
Atlantic L	66.7	52.5	27
Col.	-	-	-
Ct.	157.0	149.0	5
D.C.	-	-	-
Del.	25.6	20.1	27

Ill.	333.3	215.3	55
Loto Q.	244.1	218.0	11.9
Maine	9.6	6.4	50
Md.	457.4	385.7	18.6
Mass.	260.1	208.5	24.7
Mich.	527.4	502.4	5
N.H.	12.5	11.0	13.6
N.J.	518.0	417.0	24.2
N.Y.	424.8	236.2	79.8
Ohio	367.0	297.0	73.6
Ontario	507.0	482.0	5
Penn.	562.0	427.0	31.6
R.I.	37.0	34.8	6.3
Vt.	3.7	2.5	48
Wash.	-	-	-
West. Can.	210.6	200.2	5

Most state lotteries are projecting revenue increases of from 15% to 45% for the current fiscal year. And this comes at a time when tax revenues from most sources are dropping again. And where does the net revenue from the lottery go?

USES OF NET REVENUES FROM STATE LOTTERIES

State	Use of Funds
Arizona	Transportation
Colorado	Parks & Facilities
Connecticut	General Fund
Delaware	General Fund
D.C.	General Fund
Illinois	General Fund
Maine	General Fund
Maryland	General Fund
Massachusetts	Local Aid
Michigan	Education

New Hampshire	Education
New Jersey	Education/Insts.
New York	Education
Ohio	General Fund
Pennsylvania	Senior Citizens
Rhode Island	General Fund
Vermont	Debt Ret./Const.
Washington	General Fund

The lotteries are generating from one to four percent of total state budgets and still growing. The lotteries have given government the opportunity to fund important programs with a dependable revenue source that is totally voluntary.

LEGISLATION OF OTHER STATES

Of the legislation received from states operating a legal lottery currently, there are several areas which are fairly standard in all of them.

Many of the states establish/create some type of a commission which functions in an advisory capacity over the Director and other administration officials of the lottery. It is composed of five to nine members who are appointed by the Governor. They are appointed for terms of a specific number such as four years or they may all have staggered terms. They serve at the pleasure of the Governor.

The commission is given the power to advise and recommend to the Director regarding operation and administration of the lottery, report monthly (or any other given time period) to the Governor and legislature, and have continuous studies and investigations of the lottery to ascertain defects, abuses, and necessary rule changes.

The Director also is a Governor appointee who serves at the Governor's pleasure. Some states require that this appointment be confirmed by the Senate just as a normal cabinet position. The Director provides rules such as the following:

1. Type and number of games to be conducted
2. Price/s of tickets
3. Numbers and sizes of prizes on winning [illegible]
4. Manner [illegible] drawing [illegible]

5. Manner of payment of prizes to holders of winning tickets
6. Frequency of drawings or selections of winning tickets
7. Number and types of locations at which tickets may be sold
8. Method to be used in selling tickets
9. Licensing of agents to sell tickets
10. Manner and amount of compensation for licensed sales agents to assure public convenience and availability
11. Apportionment of the total revenues

Most states provide that no license as an agent to sell lottery tickets or shares shall be issued to any person to engage in business primarily as a lottery sales agent. Factors used in qualifications are as follows:

1. The financial responsibility and security of the person and his business
2. Accessibility of his business to the public
3. Sufficiency of existing licenses to serve public convenience
4. Volume of expected sales

Depending on the need in the individual state, legislation varies as to what criminal provisions are provided for. Provisions such as sale to a minor, sale of a ticket at a greater price than that fixed, counterfeit provisions, and unlicensed sale of a ticket are fairly standard.

Specific articles on unclaimed prizes, deposit of moneys, compensation of agents, and payment of prizes vary with individual need. Further, how the money is to be accumulated, such as a lottery fund, and how distribution is to be handled, such as 50% in prizes paid, does show differential amounts with each state's legislation.

OUTLINE OF LEGISLATION

I. Definitions

II. Establishment of Lottery Agency

III. Commission Membership

    A. Appointment
    B. Terms
    C. Vacancies

- D. Removal
- E. Expenses
- F. Powers - Rules and Regulations

IV. Director
- A. Appointment
- B. Qualifications
- C. Salary
- D. Powers and Duties

V. Lottery Agents
- A. Licensing
- B. Authority

VI. Criminal Provisions
- A. Right to prize not assignable
- B. Price of tickets
  - 1. Who may sell
  - 2. Penalty
- C. Sale of ticket to person under eighteen prohibited
- D. Counterfeit tickets
- E. Eligibility to purchase tickets or receive prizes

VII. Unclaimed prizes

VIII. Deposit of moneys
- A. Compensation of agents

IX. Payment of prizes

X. Lottery Fund

XI. Auditing of Accounts Expenditure

FIELD TRIP

In December the committee visited for an on-sight inspection Baltimore, Maryland and New York City, New York. On this trip the committee members who attended were exposed to different and varying aspects of the lotteries operating in-each state.

In Maryland it is obvious that the lottery has been a part of its history for a long time, [illegible] of our countrys first president, George

Washington, was constructed with a fund of $100,000.00 raised by a statewide lottery. As early as the 1750's, Baltimore City authorized lottery games as a method to provide necessary funding for the paving of the city's streets and to deepen and clean the Baltimore harbor.

The 1972 legislation, which provided Maryland with its current lottery operation, was approved overwhelmingly by voters in a statewide referendum. The vote in favor averaged three to one and in some counties averaged as high as five to one. In its first seven months of business, total sales at the end of 1973 were $25 million dollars. Eight years later in 1981 the Maryland lottery reported total sales of $423 million. It has become the third largest source of revenue to the state's general fund. Only income tax and retail sales and use taxes contribute more to the general fund.

In the past nine years, some of the lottery's highlights have been:

1. Almost $2 billion in gross sales
2. Over $1 billion paid to Maryland lottery players in prizes
3. Nearly $1 billion in contributions to the general fund
4. Over 22 million lottery players have won prizes in lottery games
5. Sixteen citizens have been made instant millionaires because of the lottery

The legislature in establishing the lottery mandated it to earn the maximum amount of revenue in the most efficient manner. Currently, the lottery offers players three games of chance. "The Numbers Game," is a pick-your-own three-digit daily game. Wagers are a minimum of 50 cents per ticket and the game has a fixed payout. For every dollar wagered on a number to win in its exact order, $500.00 is returned. The "Surprise Package" game is a weekly game that offers lottery players a chance to win a prize ranging from $2.00 to $100,000.00. This game, introduced on May 19, 1982, offers players a combination game featuring weekly as well as immediate prizes. The third game is the "Subscription" game. This game is only played by subscription and prizes range from $25.00 to $150,000.00. There are three subscription plans: a $10.00 plan which gives the player a ticket a week for ten weeks; the $25.00 plan provides a ticket a week for 26 weeks and the $50.00 plan gives a player a ticket a week for 52 weeks. The "Subscription" game allows players to choose a three-digit number of their choice that is playable against the daily lottery number each day for the life of the subscription plan.

[illegible] every dollar raised by the lottery helps to finance public [illegible] of every dollar helps fund hospitals and health services;

human resources, such as social services administration, as well as the employment security administration, receive almost 7 cents of every dollar earned; over 5 cents of every dollar raised is used to support state police and correctional facilities; and finally the civil division of the state receives almost 4 cents out of every net dollar earned. These are only a few of the services provided to Maryland's citizens through the General Fund and its use of lottery revenues.

Television has played a major part in the success of the lottery. Each evening at 7:30 p.m. Monday through Saturday, the winning numbers for "The Numbers Game" are selected. Hundreds of thousands of Maryland's lottery players view the drawing to see if they have won. Each Wednesday evening at 7:55 p.m. the selection of winning numbers is televised, live, for the "Surprise Package" and "Subscription Game" games.

Forty percent of Maryland's adults have purchased a ticket to the weekly lottery in the past two years. The most frequent purchase is for $1.00 with players buying about 3.3 tickets in the average month. Winning is the greatest positive attributed to the lottery but fun and excitement also motivate people to participate. Fifty-three percent of those who played the weekly lottery in the past three months have been a winner at some time or another. Not winning and poor odds are the major negatives associated with the lottery.

The committee also toured the computer center. Technical knowledge and advancement in this area is astounding. From back up generators that will run the entire operation for days in a total electrical blackout to sensors in the main computer to detect anyone trying to "rig" or interfere with normal routine terminal business, there was nothing left to chance.

The New York lottery operation and administrative functions were the key points of the New York City seminar. The information that follows is a brief synopsis of facts learned from the meetings held at the World Trade Center.

More than six out of every ten New Yorkers who cast their ballot in the 1966 Constitutional amendment referendum voted in favor of a State Lottery. As a result of that decision, more than $1 billion has been earned through lottery sales, principally for the support of education. From June 1, 1967 through September 8, 1982, the total sales amounted to $2,352,230,000.00.

The New York State Lottery was originally created by the legislature in 1967 to be a separate and autonomous division under the Department of Taxation and Finance. Later, the responsibilities of the Division of the Lottery were transferred to the State Racing and Wagering Board, where they remained until lottery operations were suspended in mid-October, 1975, by Governor Hugh L. Carey. The lottery was reconstituted by legislation in 1976 as an autonomous unit, again within the Department of Taxation and Finance.

Under the new law, the Director was granted full authority over the administration of the lottery.

In the fall of 1982, there were some 11,000 ticket selling agents licensed by the state. Sales agents earn a 6% commission on their sales. In the period from September 8, 1976, through September 7, 1982, ticket sellers—most of them small businesses—earned commissions in excess of $100,000,000.00. Since 1976, the "average" agent has sold a total of $129,000.00 in lottery products and earned $7,740.00 in sales commissions.

From the statistics above, it is hard to imagine that the New York lottery was suspended in 1975. Until 1975 lottery tickets bore computer generated numbers which had to be matched with number combinations selected at drawings. Following a period of bad publicity concerning the design of the then current game, an error was discovered in the computer program which generated the random numbers printed on the tickets. On October 23, 1975 the Governor closed the lottery and ordered a full investigation and management evaluation of the agency. As a result of these inquiries new legislation was passed with the intent that the lottery be managed professionally and the Director would have the requisite resources under his control to accomplish the agency's important revenue raising mission. When in September, 1976 the "new" lottery returned to the marketplace, sales of $18,000,000.00 were recorded in the first week, largely due to the instant lottery games. For the first time, ticket buyers were able to know instantaneously whether they had purchased a winner.

The next major evolution occurred in 1978 with the LOTTO game. This is a weekly "pick your own numbers" game where players pick six numbers ranging between 1 and 40. A correct match of all six with those drawn wins the jackpot, which in 1928 began at $250,000 and has skyrocketed to today's high jackpot of $5 million.

The third and most successful phase came with the introduction of the DAILY NUMBERS game in 1980. Its popularity was instantaneous. The number of ticket selling locations grew from the 547 which were operational when the numbers went on sale, to almost 1,500 at the end of the 1981-82 fiscal year.

The original legislation establishing the lottery in 1967 earmarked 30% of the gross revenues to prizes and 55% to education with 15% for administration. In 1970, the legislature increased the prize allocation to 40% while reducing the share for education to 45%. Presently, 45% of LOTTO and Instant Game sales and 35% of DAILY NUMBERS/WIN 4 sales go to education.

Sales projections for fiscal year 1982-83 point to record levels reaching more than $540 million.

The basic organizational structure begins with the Director. Reporting directly to him are the public relations area, the counsel and the security auditor. The main bureaus are the administration, operation and planning.

TESTIMONY

On November 18, 1982, the subcommittee met in New Orleans to hear testimony from two lottery directors, namely, Mr. John Quinn of New York and Mr. Martin Puncke of Maryland. The credentials of both gentlemen were quite impressive.

Mr. John Quinn was appointed executive director of the New York State Lottery in April of 1976. He was elected president of the National Association of State Lotteries in 1982. A 24-year veteran of the U.S. Army, Mr. Quinn retired in 1970 with the rank of colonel, after which, he spent several years working with the governor's office in Michigan. During this period, he was involved with the start-up of the Michigan State Lottery. Mr. Quinn, a native New Yorker, subsequently applied for a position with the New York State Lottery and was hired in 1976.

Mr. Martin Puncke was appointed director of the Maryland State Lottery in 1979. He was elected vice president of the National Association of State Lotteries in 1982. He has also served 29 years with the Maryland State Police, retiring in 1967 with the rank of major. He was later employed by the U.S. National Highway Traffic Safety Commission. He attended Northwestern and Harvard Universities.

Mr. Quinn had the following comments to make concerning the New York State Lottery. "New York was the first state to successfully introduce a lotto game in 1978. Sales for this game have increased from $300,000 per week to in exeess of $5 million per week in four years. New York presently has three kinds of games in their lottery system, namely, the instant game, the lotto game and the daily numbers game. New York pays the smallest amount of prizes of any other lottery state. Forty to fifty percent of the revenues collected go to prizes, 15% goes to the administration of the lottery, and 35% to 45% goes to the educational fund in the state. Mr. Quinn pointed out that the lottery is good for business and that it pays millions of dollars each year in commissions to sales agents, distribution fees to banks and distributors, and contractors fees. In New York's last fiscal year, lottery sales averaged $11 million per week.

Mr. Quinn stated that he felt the New York lottery legislation was well organized in that it provides certain limits but also leaves the director broad authority to make decisions and changes as he sees fit. New York has an outside auditor and Mr. Quinn advised that any state beginning a lottery have, in addition to a state auditor, an outside independent auditor to check not only their records but also their drawings. He said that he had not seen criminal infiltration in New York's lottery operation but that petty thievery by lottery employees had occurred three times since his association with the New York lottery. He further added that retribution and convictions had been obtained in all of those cases. Mr. Quinn stated that he knew of no discernable reason to conclude that lotteries have caused an increase in crime. He commented that every study he had seen on what type of people buy lottery tickets indicated that the average ticket buyer is a white male approximately 50 years old with an annual income of between $13,000 and $25,000. Mr. Quinn advised the operation of lotto, daily numbers, and instant games. He further stated that the daily numbers game is the cheapest game to operate. Whether or not to have a commission is a local option, and Mr. Quinn advised that based on Louisiana's past experience with a lottery he felt that Louisiana should have a commission to provide policy guidance and an executive director to be responsible for the day to day operations of the lottery. Mr. Quinn further stated that he felt there should be no political interference in the operation of a lottery, but that it should be run strictly as a professional business.

Mr. Matt Puncke spoke on behalf of Maryland's lottery and had the following comments to make. The funds generated by the Maryland lottery go into a General Fund which helps to support public education, health and hospitals, and retirement and employee relations, as well as many other functions and organizations. Bills are introduced into the legislature each year to determine what organizations will receive funds. Mr. Puncke agreed with Mr. Quinn that the weekly game was an expensive game to operate and that instant games were very productive and effective and could be easily instituted. Other games that he recommended operating were numbers, pick four, lotto and subscription games.

Maryland does have a commission whereas New York does not. Maryland's commission consists of five members that are appointed by the governor and each serves a four-year term. They serve voluntarily and are not paid for their services. This commission assists and reviews the actions of the director—they do not run the lottery. The director does not have the authority to write contracts. The commission meets once a month to review the work and recommendations of the director.

Maryland has the highest per capita bet ratio of any lottery in the world. Maryland's lottery generates approximately $400 million per year. Mr. Puncke stated that Maryland has seen no increase in crime that could be attributed to the lottery since its institution. They have also had some petty larseny but have had to fire only one lottery employee. He further stated that there was no organized crime to his knowledge in Maryland with reference to the lottery games. He agreed with Mr. Quinn that a private auditor in addition to a state auditor is advisable. Maryland's law states that a lottery terminal cannot be operated unless another legal business is being operated in the same location. Before installing a lottery terminal, a marketing investigation is made first to determine whether additional money can be generated in that location by that lottery terminal. It costs approximately $6,900 to install a terminal into a place of business. Agents are paid by commission of ticket sales.

In New York the highest prize in the instant game is $1 million or $1,000 per week for life. There is a $5 million limit on the lotto game in New York. If a jackpot is not hit one week, then the prize money is added to and rolled over to the next week. This continues until the pot reaches $5 million or until someone wins it.

Both Mr. Quinn and Mr. Puncke agreed that there should be no statutory requirements or qualifications for a director and that the selection of the director should be strictly up to the discretion of the Governor. In Maryland members of the commission and the director are all confirmed by the Senate. In New York confirmation by the Senate is unnecessary.

The average agent in Maryland sells $7,800 per week and grosses for himself approximately $22,000 per year. The top agent in Maryland sells $26,000 per week and grosses approximately $80,000 per year. In New York an agent that sells $5,000 per week grosses approximately $15,600 per year which is 6% of sales. The top agent in New York sells approximately $28,000 per week and grosses approximately $87,000 per year.

If a prize winner who is receiving yearly payments dies, the payments are then paid to the estate of the winner. Payments are not accelerated, however. Individuals who win large sums of money are advised by the lottery to make out a will immediately so that funds can be paid according to this will rather than being tied up in the estate. When tickets are not claimed, Maryland's law states that the prize money cannot go to the state and that it must be put into a separate pool which will be returned to the players in some type of a bonus situation. New York's law puts unclaimed prize money back into the state where it goes to the educational fund.

The proceeds collected by agents are covered by bonds for security purposes in both New York and Maryland.

New York pays out 40% of monies collected in prizes whereas most other states pay 45% to 50% in prizes. This means that New York nets more for the state than most of the other states do, but Mr. Quinn pointed out that they probably lose some in sales to New Jersey and Massachusetts because of their lower prize payout. Maryland pays between 42% and 48% in prizes.

Maryland has 124 authorized employees working for the lottery and New York has 185 authorized employees working for its lottery. All of New York's lottery employees are civil service with the exception of one deputy who is not. Maryland's lottery employees are under the regular merit system with the exception of three deputy directors who are unclassified employees. Mr. Quinn and Mr. Puncke report directly to the Governor. Both states have decreased their number of employees since the inception of their lotteries as they have improved their organizational structures.

Mr. Puncke stated that security and integrity were the two predominant aspects of operating a lottery. In New York there is an oversight committee whose purpose is to insure the lottery is operated properly, but Mr. Quinn pointed out that he hasn't heard from that committee since 1976. There is not an oversight committee in Maryland for that purpose and Mr. Puncke stated that lottery officials appear before the legislature each year for annual budget requests and to discuss changes in the lottery legislation.

Both New York and Maryland contract out the on-line system their lottery uses for their daily numbers game with Control Data Corporation. New York pays CDC approximately 2% for the use of their major computer center, for delivering terminals to all agents, training the agents and for collecting the monies that are due weekly. Approximately 1% of New York's gross is paid to advertising contractors. New York contracts their lotto game with Games Management Services and also contracts with Pitney Bowes for office equipment. Private distributors are used to get the tickets from the lottery to the agents on the street in New York. Maryland owns their own equipment and contracts with CDC for service of their equipment. CDC is assessed a penalty fee if their equipment is inoperable after a certain period of time.

The next subcommittee meeting at which testimony was heard was on February 23 and February 24, 1983. One day was devoted entirely to the opponents of the lottery who were organized by Mr. Ken Ward of the Louisiana Moral and Civic Foundation, Inc. The following day's meeting was given to the proponents of the lottery.

Mr. Ward's testimony began by giving the subcommittee a list of people who wanted their opposition to the lottery to be made public along with the organization that they represent:

Cecil Janway	Louisiana District Council, Assemblies of God
T. J. Jemison	Louisiana Baptist State Convention
Robert L. Lee	Louisiana Baptist Convention
James H. Monroe	Presbyterian Church in the United States
David Mulford	Independent Full Gospel Churches
Kenneth Shamblin	Louisiana Conference United Methodist Church
Bill Smith	Churches of Christ
Tom Fred Tenney	Louisiana District United Pentecostal Church
Ralph West	Church of the Nazarene
James B. Brown	Bishop of Epiocopal Diocese of Louisiana

Mr. Ward had the following comments to make concerning a state lottery in Louisiana. Mr. Ward stated that their reasons for opposing the state lotteries stem from the fact that 1) both the Louisiana Constitution of 1921 and of 1974 expressly prohibit a state lottery, 2) the fact that a lottery is a form of regressive_tax and can lead to compulsive gambling, 3) that historically lotteries have been difficult to control, and 4) like other forms of gambling is based upon a philosophy which is contrary to our Judeo-

Christian heritage. The lottery as a form of regressive tax and the idea that it can lead to compulsive gambling was one of the most important facets of the opposition that Mr. Ward felt the committee members might be interested in hearing.

Mr. Ward stated that proponents of lotteries argue that a lottery is not a tax at all for no one is forced to buy a lottery ticket and people are forced to pay taxes. However, to make such an argument, one overlooks the fact that tax on liquor for instance, is paid only by those who choose to buy liquor, but nevertheless, it is a tax. Neither the compulsive gambler or compulsive drinker has a choice because they both believe they must continue to buy. Mr. Ward reminded the committee of the testimony given in November of 1982 by Mr. John Quinn, Executive Director of the New York State Lottery, in which he cited a New York study which showed that the average lottery buyer was a 50-year-old white male earning between $10,000 and $25,000 a year. These findings were disputed by Mr. Arnold Wexler, Vice President of the National Council on Compulsive Gambling, based in New York. The average lottery ticket buyers, according to Mr. Wexler, are poor people who cannot afford to buy them. Further, said Mr. Ward, another study conducted by a Michigan economist, Mr. Daniel E. Suits, Professor of the University of Michigan, also contradicts Mr. Quinn's study. Mr. Suits calls the lottery a regressive tax that soaks the poor and those least able to pay. He found that those with annual incomes of less than $5,000 were spending approximately 0.30% of their income while those making more than $30,000 were paying out only 0.02% of their income.

In support of their concern that the lotteries will be a regressive tax on those least able to pay, Mr. Ward brought to the committee's attention remarks made by Mr. Daniel Bower, Co-founder and President of Scientific Games, Inc., in which he described the person who is attracted to the player selection games of the lottery as being non-white, male, and employed as a laborer or a service worker with less than an eighth grade education.

Further, it should be of interest to the committee, said Mr. Ward, that Representative Parren Mitchell, a democrat from the 7th District in Maryland, in a dispute with the Director of the Maryland agency concerning discrimination in hiring practices, said, "I don't like the lottery. I never did and I never will. I'd like to see it destroyed. It drains from the black community far more than it returns." Mr. Ward noted that these statements were made in 1982. Other studies, he said, in other states, bear out the fact that the lotteries are a regressive unfair tax on the poor.

In a research report funded by the Connecticut State Commission on Special Revenues and conducted by Mark Abrahamson, Professor of Sociology and Head of the Department of Sociology, University of Connecticut, it was pointed out in part that the Connecticut lottery primarily attracts poor, long-term unemployed and less educated participants. It generates state revenue in a regressive manner and should be discontinued. Those who play at least once per week in Connecticut were described as follows:

1) Three in five had below the state average income
2) One in three lived on a fixed income such as pension, welfare, etc.
3) One in four experienced long-term unemployment
4) One in four had formal education that included less than high school diplomas

Mr. Ward further stated that lotteries are harmful to people in that they create more compulsive gamblers. Estimates show as much as 10% of our population is actually afflicted by the disorder. Dr. Don Johnson, a Colorado Psychiatrist and Dr. Terry Knapp, Associate Professor of Psychology at the University of Nevada, believe that lotteries will breed additional compulsive gamblers. Knapp notes that as availability of gambling increases, pathological gambling increases. Johnson adds that a lottery will produce addiction. As lotteries are approved in different states, the membership in the various Gamblers Anonymous chapter of that state soars. The New Jersey Task Force on Compulsive Gambling, estimates that in the last three years the number of compulsive gamblers has increased from 375,000 to a minimum of 800,000. They have recently been awarded a grant to help compulsive gamblers and are calling on the governor in that state for $75,000 from lottery revenue to be used for a Rutgers University study of the escalating problems. In spite of laws prohibiting young people from playing the lottery, enforcement is lax and surveys taken of compulsive gamblers indicate that many bought their first lottery ticket at age 14.

Historically lotteries have been difficult to control and despite progress made, problems still exist. Three problems were pointed out:

1) Danger of political interference
2) Lack of confidence in government, created by the lottery
3) Distraction of elected officials from facing up to their responsibility of developing adequate and equitable systems of public financing.

Mr. Ward stated that the governor and legislature of this state owe it to the people of Louisiana to reject any "stop-gap" measure such as a lottery and plan with confidence for the future of this state.

The lottery like other forms of gambling is contrary to our state and nation's Judeo-Christian ethic. Even though there are no "Thou shalt nots" concerning gambling in the Bible, it does offer many principles which indicate that gambling is wrong. The Bible instills a work ethic; gambling instills a something-for-nothing attitude. The Bible condemns covetousness and materialism, both of which are the heart of the gambling process. The Bible teaches love for God and neighbor whereas gambling defies the sovereignty of God in the direction of human events and seeks personal gain and pleasure from another man's loss and pain.

Mr. Ward stated that their organization respectfully requests that at the appropriate time this legislative subcommittee draft a joint resolution to be introduced early in the 1983 regular legislative session which would urge and request that no legislation in regard to a state lottery be submitted during this session, and further that this study committee be dissolved.

Mr. Rod Kennedy, Chairman, Public Affairs Committee, Louisiana Baptist Convention, stated that we have a responsibility to bring to this task the largest amount of integrity that we possibly can. Integrity is the key concern in any democratic process. To give support to this lottery would possibly undermine public confidence and the integrity of government, a confidence that is sometimes strained at best and does not exist in other situations. Passing of the proposed state lottery would represent to us the taking of an easy way out in an attempt to solve the difficult economic problems. A state-supported lottery would put the state in the position of obtaining revenues by means which our Constitution deems as illegal for individuals. The lottery, he said would put the state in the position of educating a new generation to a "something-for-nothing" philosophy. The purpose of government is to promote the general welfare of its people. Operating a vice would be counter to this principle even though it might be expedient in the short-term by producing revenue. Mr. Kennedy said that we need to teach all of our people that they should educate themselves, use their best mental resources, and work hard. The lottery would promote a philosophy which would dig a hole instead of building a ladder. A lottery means that a few win at the expense of many. Legal lotteries in other states are often paralleled by an illegal system. Once the lottery is promoted as something in which they should participate, free enterprise takes over. Illegal lotteries can operate with lower overhead, offer better prizes and compete with the legal system. The lottery is not as efficient as taxation as a means of raising funds, and the percentage return is lower than taxes and not cost effective.

As an alternative to the lottery Mr. Kennedy said that they would suggest a long-term statesmanlike program to simultaneously build confidence in good government, while educating the citizen toward responsible and equitable taxation.

Dr. William H. Elder, III, Pastor, St. Charles Avenue Baptist Church, Chairman of the Government Liaison Committee of the Greater New Orleans Federation of Churches, stated that on behalf of both organizations there are at least eight reasons why a state lottery would be very poor public policy. First, the lottery would be a very poor problem-solving device. Since a lottery could be expected to provide only between one and three percent of state revenues, and since a lottery requires an average of 55% overhead and a new bureaucracy for its administration, opting for a general taxation solution would seem more desirable.

Secondly, a lottery was felt to be a poor crime preventive. The record of states with lotteries indicates that illegal lotteries have not declined but increased. The record shows that when the government goes into the lottery business the market for lottery involvement is expanded and stimulated. Legalizing lottery makes lottery, in general, a much bigger business, and where the stakes are higher, organized crime is willing to pay higher for law enforcement officials to look in the other direction.

Thirdly, the lottery further undermines public confidence in government. In the case of the lottery the public perception would surely be that the government had reversed its stand on what was once seen as detrimental to the public good.

Fourthly, a lottery undermines the work ethic which is fundamental to our economic system. The lottery is a form of gambling in which the desire to win money is paramount. People sacrifice necessities of life, not because it is fun but because of the unrealistic dream of the pot of gold.

Fifthly, the lottery undermines many of the fundamental principals of a humane society. The larger the proportion of gamblers to non-gamblers in a society, the less humane will become our composite attitude.

Sixthly, a lottery is particularly attractive to poor and low income people who will divert very scarce and essential money to the lottery in the hopes of curing their financial woes. The record shows that an average of 15% of all lottery players come from the ranks of the poor.

Seventh, a lottery will not only create more gamblers who will in turn foster the illegal numbers game, etc., but the lottery will also serve to create more compulsive gamblers who become addicted and whose gambling destroys what family he or she has.

In summary, Mr. Elder stated that they believe a lottery for Louisiana would be a terrible mistake, one that would be regretted but not reversed in its consequences.

Mr. Lynn Clayton, Editor, Baptist Message, addressed the committee on the morality of the state lottery. By morality Mr. Clayton said that he had reference to the positive or destructive impact something has on the fiber of a state's character. This means that a state determines to do those things that are right and refrains from doing those things that are wrong as a body. The ends do not necessarily justify the means. These lotteries are morally wrong because their basic concept is built upon deceit. It places the government and top government officials in the role of pushing something that is built upon deceit. Further, said Mr. Clayton, the percentage of the state budget that the lottery might bring in is so small it simply does not justify the hassle. Less than a 1/2% of the state's budget comes from the race track gambling.

In 1981 Maryland netted $40 per person from the lottery but paid out $26 per person for more state and local public welfare than did Louisiana. He did not feel that the lottery is worth the few dollars that might be made by the state.

Mr. Warren C. deBrueys, Managing Director, Metropolitan Crime Commission, stated that this commission felt that the lottery will dramatically increase the number of people who gamble. Information compiled on gambling activity in Nevada reveals that residents there gamble and spend more on gambling than the nation's population as a whole. This indicates that the widespread availability of legal gambling increases the gambling population and rate of participation. He felt that the city of New Orleans would suffer most because of the very serious problems they already face in the area of high level crime.

Mr. deBrueys further stated that widespread gambling in the form of a legalized lottery will seriously erode our basic work ethic which helped to make our country great and prosperous. Introduction of widespread gambling through the medium of a legalized lottery is certain to create a new breed of gamblers among our youth, currently and generally, uninitiated in that habit or vice. The greatest evil, he felt, that will flow from the lottery will be that it will introduce youth to the concept of getting something for nothing, rather than to develop a discipline of study and hard work to attain skills that enable one to function effectively in society.

The government's share, said Mr. deBrueys, from its citizens who participate in lotteries averages between 40% and 50%. Prizes of $1,000, which cost $.50 per ticket, require that some 4,000 tickets be sold in order for the state to gross $2,000. Assuming a 50% take by the state for its share and for the cost of administering the lottery and 50% to be used as the $1,000 prize money, the odds would be 4,000 to 1. It was the considered opinion of the Metropolitan Crime Commission that the additional money that the State will bring into its treasury is not worth the alienation of an important and substantial minority segment of our society. Because any consideration of legalizing a lottery in Louisiana carries with it serious potential implications that could have both immediate and long-range negative effects on its citizens, said Mr. deBrueys, we urge this lawmaking body to give long and serious thought to what we consider to be most serious concerns about the future stability of our state government and the communities under its control.

The second day of testimony began with the introduction of Mr. Edward J. Powers, former Director of the New Hampshire Sweepstakes Commission and former President of the National Association of State Lotteries, presently a consultant on state lotteries. He received his B.A. degree from Lawrence University where he was elected to Phi Beta Kappa; he was graduated with a Juris Doctorate Degree from Georgetown University, Washington, D.C.; licensed to practice law in Massachusetts, Florida, and Washington D.C. He served with the FBI from 1941 to 1963 and during his career was special agent in charge of six field divisions. Retired from the FBI in 1963, he accepted the position of Executive Director of the New Hampshire Sweepstakes Commission, the first lottery in the nation. During his tenure with New Hampshire, Mr. Powers was President of the National Association of State Lotteries during 1976-78. He retired from the New Hampshire Sweepstakes Commission in 1978 and is presently employed as a part-time consultant in the lottery field.

During the time that New Hampshire was considering a lottery in 1963, the same types of charges were being made there as are now being made in Louisiana. The law was enacted in April of 1963. The vote of the people was not to take place until 1964. When the results came in, the vote was over three to one in favor of the lottery. The people did not believe the fears that had been voiced by the opponents that this would create a crime atmosphere or that there was going to be a tax on the poor or that it would lessen the respect for government in the state. The law required that the people vote on this measure every two years thereafter so that they would have a chance to vote the lottery out as far as the sale of tickets was concerned. But each year the vote got bigger and by 1970 the vote was running over six to one in favor of the continuation of the lottery.

Mr. Powers posed the question of how to prevent dishonesty in state lotteries, counterfeiting of tickets or penetration by organized crime. The general answer, he said, is that it can be done through careful research, thought and planning with security uppermost in mind every step of the way. There must be emphasis on internal controls and safeguards in the structure of the lottery.

One common need underlying all of the state lotteries is security. A serious breach of security can undermine the integrity of the lottery and public confidence in it, thus affecting revenues. States entering the lottery business at this time have the benefit of all of the experience of the established lotteries. State lotteries have not created crime problems and thus far there has been no penetration by organized crime.

Specific steps that can be taken to insure basic security principles are:

1. Require that careful screening be given to all personnel in the lottery agency. All applications must be checked.

2. The procedures for handling tickets and funds should be thoroughly researched and coordinated with the state treasurer or controller. The lottery must have an experienced, qualified accountant heading this phase of the responsibilities. Lottery funds from the vendors must be deposited daily in banks or collected by field representatives.

3. Computer technology makes it possible to account for millions of tickets distributed and sold every week. In addition to the lottery number there is a code number on each ticket.

4. The manufacture and printing of lottery tickets by computers using special paper, ultraviolet inks, unusual designs and computer numbering provide maximum security against counterfeiting or duplication.

5. Careful planning must be given to the premises housing the lottery. Proper locks must be installed on all doors with access restricted to personnel actually assigned for work in the area. Personnel responsible for paying prize claims should not have access to information about unclaimed prizes; personnel responsible for processing the delivery and storage of tickets should not have knowledge of the assignment and distribution of tickets to vendors. A detailed survey should be made by a qualified law enforcement officer prior to building or moving into lottery headquarters.

In summary, Mr. Powers said that creating and maintaining a secure environment for this complex industry is a constant but manageable challenge. Management and lottery personnel must be alert every day to insure that drawings, prize payments, ticket distribution, physical security, and inspections do not become routine. Eternal vigilance is the price that must be paid for earning and keeping the public confidence and running a successful, profitable lottery.

Mr. Dan Bower, President, Scientific Games, Inc. of Atlanta, stated that Scientific Games was started approximately 10 years ago and that they have done business with 17 of the 18 lotteries in the United States. They have started every lottery in the U.S. since 1976. If a state doesn't need revenue, said Mr. Bower, then it doesn't need a lottery. If Louisiana would do just average business in the lottery, it would gross about $170 million and net about $68 million. He felt that these were very conservative figures because many of the other states that started since 1976 have done well in excess of those numbers. On the tax base this represents about $50 per taxpayer.

Four lotteries that have started within the last 1-1/2 years include Arizona in 1982, which finished its first fiscal year generating $138 million gross or a $50.77 per capita. If Louisiana did as well as Arizona, it would mean $213 million in the first year of sales. The District of Columbia has about 900,000 people and at the end of six months they will have generated somewhere between $45 and $50 million. All of these states have had their lotteries passed by referendum. Whenever a lottery has gone to the people, said Mr. Bower, it has been passed since the lotteries began in 1964. In the District of Columbia a lottery bill was submitted in conjunction with dog racing, bingo, raffles and other gambling. This bill was defeated by a vote of three to two. Just four months later another referendum was held on lottery alone and the referendum passed two to one.

In 1981 Scientific Research conducted a five-state survey where they examined the household income profile of 6,504,237 valid, in-state winners of all 140 lottery games run by the state lotteries of New York, Pennsylvania, Illinois, Michigan and New Jersey. This comes to approximately 24 million lottery purchases which were analyzed to determine who bought the tickets. It was found by these studies that the poor participate in state lottery games at levels disproportionately less than their population. The study gives statistical data which one can analyze. In New Jersey a similar study done by Gallup reached the same conclusion that the great majority of players are white, and a majority of players have an annual income of $15,000 or more. Eighty-eight percent of the participants in New Jersey earn over $10,000 per year. Over 70% of participants earn over $15,000 per year. The New York study in 1980 showed a higher proportion of those in the $18,000 to $56,000 annual income range participating in ticket buying than with more or less income. The higher the income the more likely the respondent was to have gambled.

A 1979 study completed by the College of Business and Economics of the University of Delaware noted that 11% of that state's families earning $10,000 or less participated in the daily lottery game. The same study noted that the median income of the families playing the game was $19,200 a year. Interestingly, the median family income of non-players was $18,200.

In 1974 the research department of the Detroit News reported the results of a demographic study it had undertaken concerning the Michigan lottery. Among its findings: "middle income ranges of both personal and household income are the most active in terms of the proportion of people who are heavy purchasers" and "concerning frequency of purchase, 'loyal' purchasers tend to be men, white, married, employed full time . . . having a high school education and middle income range".

A study conducted by Economic Research Associates, dated April 1981, entitled "The Effects of Legalized Gambling on the Citizens of the State of Connecticut" reached this conclusion: "A higher proportion of current players than the survey respondents overall has incomes over $15,000 and $25,000 . . ." This same study noted that "there is also a trend for members of higher income groups to be more likely to have bet than members of low income groups. The higher the income the more likely the respondent was to have gambled." This $75,000 study was completed by Economics Research Associates of Boston and their report also noted the following: "On a typical betting day the majority (74%) of lottery bettors bought between $1.00 and $5.00 in tickets. Most of the remaining bettors (23%) purchased less than $1.00 in tickets. This pattern was similar for most demographic sub-groups (income levels). The only real discrepancy was among respondents with a household income of less than $10,000, among whose bettors (50%) were likely to make small bets (less than $1.00)." In reporting on the results of the study, The Hartford Courant, Connecticut's largest selling newspaper, said "that the results of the study showed that legalized gambling does not create compulsive gamblers. . . add to the state's welfare rolls . . . cause increased bankruptcies . . . or deprive families of life's necessities".

In the extensive study completed in 1976, entitled Gambling In America, by the Commission on the Review of the National Policy Toward Gambling, statistics were compiled concerning the distribution of 1974 lottery participation and mean percent of family income spent on lotteries (page 279, Table 8.1-2). The National Gambling Commission in Appendix 2 of "Gambling in America" estimated that 10% of all Americans earning $5,000 a year or less (1974 dollars) purchased lottery tickets and spent 0.08% of their income on tickets. Using this same percentile one can then estimate that each "current player" having a mean income of $8,000 a year spends about $64 yearly purchasing lottery tickets. The National Gambling Commission also indicated that lottery players "were significantly more likely to have incomes greater than $15,000 a year (1974 dollars) and significantly less likely to have incomes under $5,000 a year (1974 dollars)". The conclusion reached was that the overwhelming majority of lottery players had 1974 family income levels in excess of $10,000.

In reporting the results of one study, The Hartford Courant, an anti-lottery newspaper in Connecticut said that the results of the study showed that legalized gambling does not create compulsive gamblers, add to the state welfare rolls, or deprive families of life's necessities. If you look at the lottery winners, you get a good idea of who the lottery players are.

Twelve additional states have lottery bills in their legislature for the coming session, namely, Alabama, Colorado, Florida, Idaho, Nebraska, New Mexico, North Carolina, Oregon, Virginia, West Virginia and Wisconsin.

Mr. Bower stated that the national average per capita is approximately $40.84. He felt that Louisiana could do better than average in net revenues due to the character of the population, and felt that Louisiana should generate between $68 to $100 million in net revenues in the first year. (Four months of the first year would be necessary for start-up.) He suggested working with a consultant in setting up a state lottery. Beginning costs for a state the size of Louisiana would amount to approximately $4 million.

CONCLUSION

In summary five conclusions are basically incontrovertible:

1. States can and are operating lotteries in the United States, with the assistance of high technology, that are efficiently run and all attempts at tampering have been immediately detected;
2. There is an ostensible absence of the involvement of organized crime in the operation of state lotteries;
3. Well-run lotteries generate meaningful amounts of revenue;
4. The overwhelming majority of studies conducted in this country illustrate that the poor patronize the lottery in numbers proportionately less than their numerical presence in any given community; and
5. A substantial minority of religiously oriented persons in Louisiana are opposed to this state initiating a lottery.

This subcommittee was formed under a study resolution by Senator Henry E. Braden, IV to look into the feasibility of a statewide lottery. The outcome of such study is this report which attempts to accurately portray the information that has been gathered. By adopting this report, the subcommittee members in no way have committed themselves as to the desirability of a lottery for Louisiana.

Henry E. Braden, IV

Henry E. Braden, IV

The District of Columbia (pictured on the right) is the newest jurisdiction expected to implement a state lottery in 1982. There are currently 15 states operating a lottery today. Gross sales for the U.S lottery industry totaled $3 billion in 1981.

THE ECONOMIC POTENTIAL OF STATE LOTTERIES

Starting this month, state legislators throughout the U.S. will begin returning to their state capitols for the commencement of the 1982 legislative session. The recurring issues, such as aid to education, reduction in unemployment and availability of social services, will again come up for consideration, but along with such matters, the primary struggle in many states will center on how to balance the state's 1982-83 budget when outlays are piling up at a faster rate than revenues.

MOOD IN WASHINGTON

The signal has already come from Washington that there will be a dramatic shift away from the unabated growth in federal spending and taxation. Yet in terms of the individual state's finances, in many instances, current economic conditions and federal cut-backs have raised havoc with most states' attempts at balancing their budgets.

It becomes almost an understatement to add that governors in most states are anxiously seeking new revenues. One such source is the highly lucrative state lottery business, which generated combined gross sales of $3 billion in the U.S. in 1981, with the net return to the states totaling approximately $1.2 billion.

THE U.S. LOTTERY INDUSTRY

More States Consider Lotteries

Fifteen states presently operate a lottery; the oldest is the New Hampshire Sweepstakes Commission, established in 1964, and the newest is the Arizona State Lottery, which went into operation in June 1981.

In addition, according to research data recently compiled by the Public Gaming Research Institute, Inc., more than one-half of the remaining 36 jurisdictions which do not currently permit a lottery may legalize one in 1982.

A total of 20 lottery bills have already been or are pending in 11 jurisdictions at this time; these areas include Alaska, Colorado, District of Columbia, Hawaii, Indiana, Kansas, Minnesota, Missouri, South Carolina, Washington State and West Virginia.

In addition, initiative or legislative action is anticipated in seven other areas based on Institute research; these states include California, Florida, Kentucky, Nebraska, Nevada, New Mexico and Oregon.

ECONOMY RAISING HAVOC

Almost across the board, the interest in state lotteries has been generated by uncertain economic conditions, which have seriously eroded many states' finances. For instance, Representative Ronnie DePasco of Missouri explains how his state has moved briskly on lottery legislation since the session began on Jan. 6: "We had five bills on lotteries introduced this year. We've already had hearings on three of them on Jan. 19. I think a lottery does have a good chance in Missouri. The need for revenues is the main reason for interest. We're broke."

"We expect a lottery will generate a lot of money for the state, around $100

LOTTERY LEGISLATION

States Considering Lottery Bills

☐ **ALASKA**
Population: 400,481
Start of Legislative Session: January 11
Length: No Limit
Lottery Legislation:
  HB 31/Freeman
  HB 193/House Rules Committee
  HB 456/Rogers
  SB 525/Cu[illegible]
  SB 531/Fahrenkamp
Gaming Currently Permitted: Social Bingo.

☐ **COLORADO**
Population: 2,888,834
Start of Legislative Session: January 6
Length: No Limit
Lottery Legislation:
  HB 1069/Spelts
  HB 1101/Rogers
Gaming Currently Permitted: Thoroughbred, Quarter Horse & Greyhound Racing and Social Bingo

☐ **HAWAII**
Population: 965,000
Start of Legislative Session: January 20
Length: 60 days
Lottery Legislation:
  HB 1776/DeHear
Gaming Currently Permitted: None

☐ **INDIANA**
Population: 5,490,179
Start of Legislative Session: January 5
Length: 30 days
Lottery Legislation:
  SJR 4/Bushemi & Harrison
Gaming Currently Permitted: None

☐ **KANSAS**
Population: 2,363,208
Start of Legislative Session: January 11
Length: 90 days
Lottery Legislation:
  SCR 1621
Gaming Currently Permitted: Social Bingo

☐ **MINNESOTA**
Population: 4,077,148
Start of Legislative Session: January 12
Length: 120 days (meets only in odd years)
Lottery Legislation:
  HB 920
Gaming Currently Permitted: Social Bingo

☐ **MISSOURI**
Population: 4,917,444
Start of Legislative Session: January 6
Length: Ends May 15
Lottery Legislation:
  HB 1243 & HJR 69/Schlef
  HJR 79/Goword
  HJR 100/DePasco
  SJR 28/Mueller
Gaming Currently Permitted: Social Bingo

☐ **SOUTH CAROLINA**
Population: 3,119,208
Start of Legislative Session: January 12
Length: No Limit
Lottery Legislation:
  HB 2167 & HB 2168/Snow
Gaming Currently Permitted: Social Bingo

☐ **WASHINGTON STATE**
Population: 4,130,163
Start of Legislative Session: January 11
Length: 60 days
Lottery Legislation:
  HB 807 & SB 4431
Gaming Currently Permitted: Social Bingo, Thoroughbred & Quarter Horse Racing, Sports Betting

☐ **WEST VIRGINIA**
Population: 1,949,644
Start of Legislative Session: January 13
Length: 60 days
Lottery Legislation:
  SJR 4/Brenda
Gaming Currently Permitted: Social Bingo, Thoroughbred & Greyhound Racing

million," added DePasco. "What will probably happen is that we'll combine all the lottery bills into one and make it a committee substitute. That way we can please all the bill sponsors."

As to the distribution of net revenues, the plan varies by sponsor. "One bill divides it up equally as aid to senior citizens, the public school system and the property tax," explained DePasco.

"My bill returns the net income to the municipalities; every county would receive an amount equivalent to the citizens' per capita wagering. We would leave it to their discretion to spend it as they see fit."

SIMILAR CIRCUMSTANCES

Interestingly, Missouri's financial situation mirrors that of its southwestern neighbor, Nebraska. According to Senator John DeCamp of Nebraska, an impending recession may signal the right climate for introducing a lottery bill: "Several years ago, I sponsored a lottery bill that came within a vote of passage. But times weren't as rough. Most successful legislation is a matter of timing. This may be the magic timing."

Under DeCamp's plan, a state lottery would raise funds to aid local public works projects, which would have an impact on property tax reduction. As to whether Nebraska is in need of additional revenues, DeCamp summed it up briefly: "You better believe it! Our president recently said the economy is in a mild recession, which the nation will be coming out of in about three months. I think in three months we're going to be really plunging into the depths."

The Midwest isn't the only sector of the country looking at a lottery, however. For instance, in Washington State, the legislature called a special session in the winter because legislators were anxious to find a solution to the state's current financial troubles. Two lottery bills were officially introduced when the legislature convened in January. Similarly, Washington's neighbor to the north, Alaska, is at the current time considering five lottery bills.

In 1980, the U.S. lottery industry grossed $2.4 billion in sales, but within a year, that total has jumped to $3 billion, representing an increase of approximately 20 percent.

Besides the central U.S. and the West Coast, there's also interest brewing in several southern states. For example, in South Carolina, a lottery bill which was introduced in 1981 but tabled by a committee late in the session, may be approved this year.

According to Representative John Snow, sponsor of House Bill 2167, the primary reason for introducing lottery legislation "was to find an alternate source of revenue for South Carolina. In my original bill, the net revenues were to go to the state's general fund. But in order to attract support, we decided to divide it up, so as to equally benefit transportation and the elderly."

In order for the lottery legislation to be approved this year, so that the citizens would have the option to vote on changing the constitutional prohibition against lotteries, the bill will "need to be recalled and additional support mustered," explained Snow. "These are hard times. We may make the effort to get it out."

FINAL APPROVAL SOUGHT

Of the 18 jurisdictions which have filed or are considering introducing lottery legislation in the 1982 session, two jurisdictions, Colorado and the District of Columbia, are probably the closest to gaining final approval. Citizens in both these areas voted for the establishment of a state lottery on the Nov. 4, 1980 general election ballot, but each has encountered delays in the legislative process.

The Colorado Legislature has since conducted an in-depth study of the industry and two new bills have been introduced in the 1982 session. Key legislators are optimistic about the chances for approval. (See 'The Start-Up Of A Colorado Lottery Awaits Legislature's Approval', Public Gaming Magazine, December 1981).

The District of Columbia is also closer to getting a state lottery implemented. The establishment of a D.C. Lottery became official in March 1981 (D.C. Law 3-172), but the lottery was indefinitely held up until the U.S. Congress concluded its debate over whether the nation's capital should have a lottery. In December 1981, the lottery's future was secured when President Reagan signed the District's appropriations bill. At the current time, the D.C. Lottery & Charitable Games Board is in the final stages of selecting a permanent director to oversee operations and preparing a Request For Proposal for the lottery's first instant game, according to Douglas Gordon, the lottery's acting director.

ARGUMENTS BY OPPONENTS
Several Key Fears Considered

With all the current interest in state lotteries arising, it may be asked why more states didn't legalize one in the '70s. One reason, of course, may be the financial aspect, as both Rep. John Snow of South Carolina and Sen. John DeCamp of Nebraska pointed out earlier. The need for additional revenues simply wasn't as pressing as it is today.

But there are also several key arguments which opponents from both the public and private sector characteristically bring up.

For instance, there is the concern that lottery tickets are purchased mainly by the *poor*. Research conducted by both government agencies and private industries clearly indicate, however, that tickets are purchased primarily by people in the middle income range and that 'the poor' buy proportionately less than their representation in the population.

There is also the fear of infiltration by organized crime if a state lottery is established. As far as this subject is concerned, there has never been a single instance of organized crime infiltration or other infiltration in the state lotteries since their inception in 1964.

Finally, there is the concern that the implementation of a state lottery will result in an increase in illegal betting. One of the secondary benefits of legalizing a lottery, however, although it is difficult to quantify due to illegal gambling operators' unwillingness to publish their sales figures, is that the states' legal numbers games appear to be effectively competing with the illegal numbers games and may be reducing the illegal numbers' sales by as much as one-third.

In reality then, the three principal arguments by opponents cannot be

SUMMARY OF U.S

	AZ	CT	DEL	ILL	ME	MD
LOTTERY COMMISSION	✓	✓		✓	✓	✓
Number of Members	5	5		5	5	5
Governor Appoints	✓	✓		✓	✓	✓
Senate Confirmation	✓	✓		✓		✓
Per Diem	$30	$50		$100	$25	expense only
COMMISSION AUTHORITY						
Type of Games	✓	✓		✓	✓	✓
Ticket Price	✓	✓		✓	✓	✓
Revenue Apportionment	✓			✓	✓	✓
Agents: License and Compensation	✓				✓	✓
LOTTERY ADMINISTRATORS			✓			
Type of Games			✓			
Ticket Price			✓			
Revenue Apportionment						
Agents: License and Compensation			✓			
Purchase Restrictions-Minors	✓	✓	✓	✓	✓	✓
DISTRIBUTION GROSS SALES						
Prize Money	45% **		45%		45%	50%*
Operating Expenses			20% max.			
Revenue to State	30% min.		30% min.		40% min.	50%*
DISTRIBUTION NET INCOME						
General Fund	✓	✓	✓	✓	✓	✓
Education						
Aid To Elderly						
Prize Money Exempt (State and Local Taxes)	exempt state tax		✓		✓	

* Maryland requires 50% of the net of the non-daily game.

** Data compiled by the Colorado Legislative Interim Committee

substantiated. To emphasize these points further, three state lottery directors were surveyed on these points. The first two were with the Federal Bureau of Investigation before heading their respective lotteries (Denz and Batch) and the third (Perrault) was a mathematics department chairman with a Massachusetts university as well as widely recognized for his analytic approach to running his state's lottery.

Robert Denz, director of the New Hampshire Sweepstakes Commission, which was established in 1964, indicated that: "In our latest state-wide survey, when respondents were asked how they would describe the sweepstakes, the most common responses were "good cause", "honestly run" and "legitimate". The sweepstakes continues to operate with this open-door policy.

"We not only welcome visits, observations and comments, we solicit them. Commission meetings are announced in advance and are open to the public," added Denz. "Every new game is the subject of a public meeting prior to sales. Every effort is made by both our staff and personnel to be alert to detect potential problems early and to practice preventive measures. We consider every citizen's comment, no matter how small or whether it be complimentary or unfavorable."

As to the income level of the New Hampshire lottery player, Denz explained that "the average player comes from a middle income range, age 35 to 65. The blue collar worker ranked highest overall in his purchasing habits."

Ralph Batch, director of the Delaware State Lottery, also concurred "that there has been no evidence of infiltration by organized crime. I don't think there are any facts which bear out the statement that there has been an increase in illegal betting either. It is my personal opinion that it has slightly decreased."

In terms of the average income level of the Delaware lottery player, Batch added that "89 percent of the players earn in excess of $10,000 and that the average player earns between $15,000 and $25,000."

Dr. William Perrault, director of the Massachusetts State Lottery, indicated that not only has there been no evidence of infiltration by organized crime, but that there are multiple safeguards to protect the integrity of the lotteries. Moreover, the Massachusetts Lottery offers 60 percent in prize money to the numbers game player and has seriously impacted on the illegal numbers game."

DRAFTING LOTTERY LAWS

States Similar In Major Provisions

The majority of the 15 state lotteries are similar in the major provisions written into their enabling legislation, although there are some basic differences with regard to the establishment of a lottery commission, the distribution of revenues and the determination of games.

THE LOTTERY COMMISSION

Twelve of the 15 state lotteries are overseen by a commission, which usually consists of five members who must be appointed by the governor and confirmed by the senate. In Delaware, Michigan and New York, however, the state lotteries are under the sole direction of the administrator.

There are special exceptions to this generalized description. For instance:

☐ The New Hampshire, Ohio and

LOTTERY LAWS

MASS	MICH	NH	NJ	NY	OHIO	PENN	RI	VT
		✓	✓		✓	✓	✓	✓
5		3	5		9	3	9	5
✓		✓	✓		✓	✓	✓	✓
		✓	✓		✓	✓	✓	✓
expenses only		$2,400 annual	expenses only		$5,000 annual		expenses only	$30
✓		✓	✓		✓		✓	✓
✓		✓	✓		✓		✓	✓
			✓				✓	✓
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✓	✓	✓	✓	✓	✓	✓	✓	✓
45% min.	45%			40% min.	45%	40% min.	45%	50% min.
15% max.				15% max.				
			30% min.	45% min.	30% min.		30% min.	
					✓		✓	✓
	✓	✓	✓	✓				
						✓		
	✓	✓	✓			✓	✓	✓

Rhode Island lotteries have a nine member commission. The Rhode Island lottery's commission consists of three state senators, three state representatives and three private citizens to be appointed by the governor.

☐ In Massachusetts, the five member lottery commission includes the state treasurer, the secretary of public safety (or his designee) the state comptroller (or his designee) and two governor appointees.

☐ Only eight of the 12 states require the senate's approval of commission appointments. (In Connecticut, both houses of the General Assembly must confirm.) The exception to this practice is Maine and Massachusetts, which do not require any prior approval. Likewise, in New Hampshire, appointments must be approved by the Council (an elected advisory branch of the government) and in Rhode Island, the combined nine appointments are made by the state legislature and the governor.

With regard to compensation, the payment of the lottery commissioners varies widely. Six of the state lotteries pay their commissioners on a per diem basis, ranging from $25 in Maine to $100 in Illinois. Two states, New Hampshire and Ohio, pay their commissioners an annual salary of $2,400 and $5,000 respectively. Four other states, Maryland, Massachusetts, New Jersey and Rhode Island, reimburse only for the expenses incurred.

DISTRIBUTION OF GROSS SALES

Eleven of the 15 states specify the actual percentage of gross sales which must be paid back to players in prize money. The average is 45 percent, although there are numerous deviations. For instance, New York has a maximum prize payout of 40 percent (which it subsequently raised to 50 percent for its daily numbers game) and Pennsylvania requires a minimum payoff of 40 percent. Vermont currently has the highest prize payout of 50 percent minimum. Likewise, Maryland requires 50 percent of its sales from the non-daily game be paid back as prizes.

Of the four states that do not have it specified in their laws, the percentage of sales that must be paid back to players in the form of prizes, Illinois and New Jersey returned 46.6 percent and 49.8 percent respectively of their gross sales in the fiscal year ending June 30, 1980.

REVENUE TO THE STATE

Two-thirds of the state lotteries distribute the net revenues to their respective state's general fund. Michigan, New Hampshire, New Jersey and New York, however, allocate their net income as aid to educational institutions. Pennsylvania's lottery law mandates that the revenues be used to assist the elderly in the form of property tax relief and mass transit assistance; Massachusetts distributes the net revenues to local municipalities.

There is more variance with regard to setting the percentage of net revenues to be returned to the state. For instance, eight of the state lotteries have a required percentage; they include Arizona (30 percent minimum), Delaware (30 percent minimum), Illinois (40 percent minimum), Maryland (50 percent of non-daily net), New Jersey (30 percent minimum), New York (45 percent minimum/35 percent minimum on daily numbers game), Ohio (30 percent minimum), Pennsylvania (30 percent minimum) and Rhode Island (30 percent minimum).

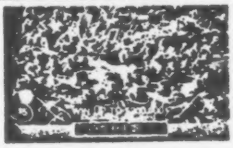
OPERATING EXPENSES

With regard to the allocation of a percentage of gross sales for operating expenses, only three states (Delaware, Massachusetts and New York) have set a level. New York and Massachusetts both have a 15 percent maximum level, followed by Delaware at 20 percent.

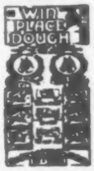
pick
LOTTO
6

LOTTO: 1.9%

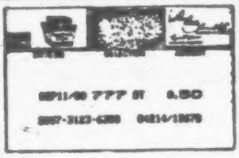
4-DIGIT NUMBERS: 1.9%



OFF-LINE WEEKLY: 9.5%



INSTANT GAME: 37.3%



DAILY NUMBERS: 49.4%

On-line numbers games are responsible for the greatest percentage of the U.S. lottery industry's sales, followed closely by the instant game. Lotto is currently operated by the New York, New Jersey and Rhode Island lotteries.

GAME DETERMINATION

In the 12 states that do have a lottery commission, the commissioners are responsible for determining the type of game as well as the price, except in New Hampshire, which stipulates that the governor and the council must grant approval. In Delaware, Michigan and New York, however, the sole power is vested in the lottery director to determine what type of games can be implemented.

Eight of the 12 lotteries which have a commission (excluding Connecticut, Massachusetts, New Hampshire and Ohio) also specifically list the apportionment of gross sales. With regard to the three states that do not operate with a lottery commission, only Michigan specifies the apportionment of receipts.

IMPROVEMENTS TO LOTTERY LAWS

Several state lottery directors were surveyed regarding possible guidelines and suggestions for states drafting lottery laws. The importance of giving the lottery flexibility in its operations was stressed.

For instance, Lynn Nelson, director of the Pennsylvania State Lottery, advised that the "state lottery laws be flexible enough to permit the lottery to properly react to changing market demands. As an example, the Pennsylvania law provides that net profits can be no less than 30 percent of our sales and that we must return a minimum of 40 percent of our sales as prize money. This provides us with flexibility; and, as a matter of fact, last year our net profits and prize payout represented 39 percent and 49 percent respectively of our sales."

"In another area, the law should give the lottery authority to design, develop and implement different lottery games, relying upon their professional expertise as opposed to having a legislature or some other outside entity make those individual decisions," added Nelson. "I think as long as it is a lottery game, it should be up to the administrator."

John Quinn, director of the New York State Lottery, added that "it's important not to make the law so impractical that the lottery director does not have the capability to experiment and innovate and bring new activities in. It's important to recognize that the marketplace is changing.

"I've found that it's better policy not to have a commission because it slows down the decision-making process. The the fact is, the lottery is a big business," added Quinn. "If we do $400 million this fiscal year, which we anticipate doing, we'd be within the top 1,000 corporations in the U.S. in terms of size.

"The lottery is a big business and it has to function like a business. It's difficult to do within a bureaucracy, but providing the law gives the director flexibility, it can be accomplished," explained Quinn. "Of course, he has to be accountable, he has to be making money for the state and he has to run an honest and efficient operation. But he needs that flexibility in the law."

William Nugent, commissioner of the Michigan State Lottery, also concurred that "we have found it better to place the lottery's operational power and authority in the hands of one person, rather than a commission."

ECONOMICAL ASPECTS

Record Sales Reported

In 1980, the U.S. lottery industry grossed $2.4 billion in sales, but within a year, that total has jumped to $3 billion, representing an increase of approximately 20 percent. Several of the state lotteries

Continued on page 41

Continued from page 12

are also projecting major increases in the upcoming fiscal 1982 period.

For instance, the New York State Lottery estimates sales will reach $400 million in the fiscal year ending March 31, 1982, an increase of 69 percent from the $236 million reported in fiscal 1981. Likewise, the Pennsylvania Lottery and the New Jersey Lottery each project sales should top $500 million in the fiscal year ending June 30, 1982; the previous year's sales totaled $426 million and $417 million respectively. New Hampshire and Delaware also anticipate a 12 percent increase to $112 million and a 15 percent increase to $23 million respectively in the fiscal year ending June 30, 1982.

RETURN TO STATE

In terms of net income, the 14 state lotteries in operation in 1980 constituted a cumulative $1.2 billion in revenues to their respective states. Nine of the states allocate the funds to their state's general fund. Michigan, New Hampshire, New York and New Jersey, however, contribute their net revenues as aid to educational institutions. Pennsylvania allocates its net as aid to the elderly and Massachusetts contributes its net to local municipalities.

Although the majority of the lotteries have a required minimum return of 30 percent of their gross revenues to the state (seven states stipulate this in their lottery laws), the contribution is usually higher.

Nevertheless, even those states that don't have a minimum level required by law, have contributed a sizeable percentage. For example, the Connecticut State Lottery contributed $56.3 million or 39 percent of gross sales to the state's general fund in fiscal 1981.

Similarly, the Massachusetts Lottery contributed $70.3 million or 36 percent of gross receipts to 351 cities and towns in the commonwealth in the fiscal year ended Nov. 30, 1980. Michigan, the state lottery with the largest recorded gross revenues of $501.3 million, contributed $222 million or 44 percent of gross sales as aid to education in the fiscal year ending September 30, 1981.

INCREASING COSTS

Several state lottery directors were interviewed regarding the relationship between net revenues and costs. (Only three of the state lotteries have a set maximum percentage in their respective laws for operating expenses.)

Robert Denz, director of the New Hampshire Sweepstakes Commission, reports that sales were up 12 percent in the first half of fiscal 1981, with a profit increase of 30 percent: "Cost of materials, equipment, services and salaries are, of course, up, but an intensified in-depth review of every operation and system has resulted in keeping total costs to an absolute minimum without sacrificing either efficiency or security."

Dr. William Perrault, director of the Massachusetts Lottery, reports a 15 percent increase in sales to $227.4 million in fiscal 1981: "While costs are increasing each year due to inflation and the changing nature of our game, costs as a percentage of revenues are being reduced."

Gloria Decker, director of the New Jersey Lottery, projects a 19.6 percent increase over the $417 million in gross sales in fiscal 1981: "Costs are increasing moderately, at a rate of 16 percent. Approximately 41 percent of our sales go to the state."

Ralph Batch, director of the Delaware State Lottery, reports sales were up 26 percent in 1981: "Percentage-wise, costs were down by 1.5 percent. But as volume goes up, certain costs go up."

John Quinn, director of the New York State Lottery, emphasized that while sales are increasing (from $236 million in fiscal 1981 to projected $400 million in fiscal 1982) "costs are also up to operate the games, use the telephone lines and produce the ticket stock. But this is unavoidable. With sales taking a quantum jump, it more than offsets the increases."

Lynn Nelson, director of the Pennsylvania Lottery, projects a sales increase of $90 million in fiscal 1982: "While costs are rising, percentage-wise, we're holding our own or decreasing."

The lottery industry as a whole has made a substantial contribution to their respective states in terms of net income. The average state lottery's contribution to the state represents between 1.5 percent to 3 percent of the state's total budget, although several of the lotteries contribute these revenues to other sources. In terms of how lottery revenues are holding up against conventional revenue sources, such as the state's sales tax, income tax and licensing taxes, several of the directors provided comparisons.

For instance, in Massachusetts Perrault explained that "while the state's conventional revenues have been increasing, the lottery revenues have been increasing at a greater rate." Quinn added that in New York "it will be a tight budget year overall for our state." And in Michigan,

The U.S. lottery industry profile on the opposite page covers the fiscal 1980-81 period. Gross revenues for Delaware, Massachusetts, New Hampshire and Pennsylvania are for 1980. Sales for the Arizona Lottery, which was implemented in June 1981, represent only the lottery's first months in operation. The Arizona Lottery's annual revenues are expected to reach $80 million in 1981.

Nugent pointed out the "state's economy is severely distressed. Over 7,000 state employees have been laid off and our state budget has had several $100 million cuts. Our lottery produces an amount equivalent to about 5 percent of our state's general fund, but our net revenues are dedicated to education."

Delaware, Pennsylvania, New Hampshire and New Jersey directors reported that conventional revenues are holding up steady in comparison to the contribution by the lottery. The combined increase in annual lottery sales averaged approximately 20 percent in these four states.

LOTTERY GAMES

Overview Of Offerings

The main staples of the U.S. lottery industry are the on-line numbers games, the instant (games) and the off-line weekly games. Before delving into the percentage of revenues contributed by the various games, however, a brief description follows:

☐ The Daily Numbers Game: A player selects a 3-digit number, ranging from 000 to 999. He then tells the agent his selection, along with the amount of money he wants to bet and the type of bet.

In terms of net income, the 14 state lotteries in operation in 1980 contributed a cumulative $1.2 billion to their respective states. The average lottery's contribution represents between 1.5 percent to 3 percent of the state's total budget, although several lotteries contribute these revenues to other sources.

Generally there are five bet types to choose from. A 'straight bet' requires a player to make the day's winning number in exact order. A '3-way combination bet' involves a player selecting two of the same digits. For example, if the number 113 was drawn, then 131 or 311 or 113 will win. A '6-way combination bet' requires a player to select any three digits and if any combination of those numbers is drawn, he wins. If 123 was drawn, winning bets could include 123, 132, 213, 231, 312 or 321. With a 'back-up bet', a player splits his bet between a straight bet and a combination bet. With a 'front, back or split pair bet', a player bets any two digits as either the front pair (12X), back pair (X12) or split pair (1X2).

The 3-digit number is then drawn in the evening, after which a player can collect his winnings. There are two types of prize schedules available:

● Fixed payout: This means that the player is guaranteed a certain payout depending on the amount of his bet and the type of bet. In this example, a 50 cent straight bet wins $250 and a 50 cent pair bet wins $25. The terminology 500-1 fixed means that a player is guaranteed a $500 prize on a correct $1 straight bet.

● Pari-Mutuel: With this type of wager there is no set payout. Payoffs vary daily, with big payoffs on lightly played numbers. Massachusetts and New Jersey are the only two states to offer the pari-mutuel wager. Massachusetts is unique in that if offers a 60 percent prize payoff.

☐ The 4-digit numbers game: This game operates on the same philosophy as the daily numbers game except that a player selects a 4-digit number. The game is usually offered on a weekly or twice-weekly basis. (The exception is Massachusetts and New Hampshire which offer it on a daily basis.) The type of bets include a straight bet, a 24-way box, a 12-way box, a 6-way box, a 4-way box and the 'back-up or split' bet.

☐ The instant game: A player buys a ticket, usually at a cost of $1, and then discovers "instantly" whether he has won. Instant tickets generally contain concealed symbols or numbers. The player determines if he is a winner by rubbing off the covering and matching the symbols or numbers underneath. Instant tickets feature a variety of themes although a popular choice is match-up games or sport contents. The ticket is sold at a variable frequency rate, although the usual ticket is on the market for 12 weeks. On occasion, a grand prize will be offered in conjunction with the instant game. This drawing is conducted after all the tickets issued under a particular theme are sold.

☐ The weekly game: A player buys a 'pre-numbered' ticket, usually at a cost of either 50 cents or $1, and then waits until the weekly drawing to see if his numbers match the winning selection. On the face of the ticket, there usually will be several numbers (generally three to six digits) in a series of boxes. Each of the boxes represent a certain prize amount. Players have the opportunity to win large prizes through this game and to be entered in grand prize drawings.

☐ Lotto: The traditional game involves a player selecting 6 digits out of a range of 40. The average cost to play ranges from $1 to $4. (In New York, the minimum play is two games for $1.) At the weekly drawing, a drawing machine

PROFILE OF THE U.S. LOTTERY INDUSTRY

LOTTERY STATES	POPULATION	GROSS SALES	NET REVENUES	USE OF NET INCOME
ARIZONA	2.7 Million	$ 20.0 Million	$ 6.4 Million	General Fund
CONNECTICUT	3.1 Million	150.0 Million	57.6 Million	General Fund
DELAWARE	6 Million	15.9 Million	5.6 Million	General Fund
ILLINOIS	11.4 Million	214.0 Million	86.0 Million	General Fund
MAINE	1.1 Million	6.4 Million	1.1 Million	General Fund
MARYLAND	4.2 Million	385.0 Million	185.0 Million	General Fund
MASSACHUSETTS	5.7 Million	197.0 Million	70.0 Million	Local Aid
MICHIGAN	9.3 Million	501.3 Million	222.0 Million	Education
NEW HAMPSHIRE	.9 Million	12.1 Million	4.0 Million	Education
NEW JERSEY	7.4 Million	417.0 Million	175.9 Million	Education
NEW YORK	17.6 Million	236.7 Million	102.7 Million	Education
OHIO	10.8 Million	297.0 Million	110.1 Million	General Fund
PENNSYLVANIA	11.9 Million	387.0 Million	152.0 Million	Aid to Elderly
RHODE ISLAND	.9 Million	33.2 Million	12.9 Million	General Fund
VERMONT	.5 Million	$ 2.5 Million	$ .5 Million	General Fund

randomly selects six balls out of 40. A player wins first prize if he correctly selects the six winning digits in any sequence. If more than one player selected the same six digits, the prize is shared. If no one correctly identifies the winning selection, a portion of the prize money is carried forward into the pari-mutuel pool for the following week's drawing. The jackpot grows at an accumulative rate until the first prize is won.

MARKET POTENTIAL

Fourteen of the 15 state lotteries currently operate a 3-digit daily numbers game; in addition, three of the states, Massachusetts, New Hampshire and Michigan, offer both a 3-digit and 4-digit option. In 1980, the numbers game accounted for 49.4 percent of the industry's $2.4 billion in sales. In 1981, however, that percentage is expected to rise.

For instance, in a survey of seven lotteries, ranging in size from 600,000 to 17.6 million, the percentage of sales contributed by the daily numbers game in 1981 ranged from 17 percent to 80 percent of the individual lottery's sales. Of those seven lotteries, however, five reported sales for the numbers game accounted for more than 60 percent of their gross receipts.

NUMBERS GAME SPIN-OFF

Seven of the 15 state lotteries currently operate a 4-digit weekly or twice-weekly numbers game; they include Connecticut, Delaware, Illinois, New Jersey, New York, Ohio and Pennsylvania.

The first 4-digit game was introduced in the New Jersey Lottery in June 1978. The majority of the other lotteries, however, have implemented the game within the last 18 months.

In 1980, the 4-digit numbers game accounted for 1.9 percent of the industry's total sales. But now with more than half of the industry offering the game, it is expected that percentage will increase. Indeed, with the three state lotteries that have been offering the game for more than a year, (Delaware, New Jersey and Pennsylvania) the 4-digit game accounted for more than 10 percent of their total sales.

INDUSTRY FAVORITE

All fifteen state lotteries offer the instant game; in fact, although it is the Arizona Lottery's sole offering, the game brought in sales of approximately $60 million in 1981. Moreover, it is expected that the D.C. Lottery will start-up either this spring or summer with an instant game. The state of Colorado has also expressed interest in implementing an instant game, providing the lottery legislation is approved by the state legislature during the 1982 season.

The instant game is one of the main staples of the industry and product lines. In 1980, it accounted for more than one third of the industry's total sales. In a survey of seven state lotteries, the percentage of sales contributed by the instant game in 1981 ranged from 10 percent to 57 percent.

Lotto is the newest of the lottery offerings, although it has been operating in New York since November 1978. An on-line version of the game was introduced by the New Jersey Lottery in 1980, followed by the Rhode Island Lottery, which brought on its 4/40 Jackpot in 1981. The Pennsylvania Lottery tentatively has plans to start up a lotto game in April 1982.

Lotto accounted for 1.9 percent of the industry's total sales in 1980. In New York and New Jersey, however, the game accounted for 35 percent and 6 percent respectively of the lotterie's sales in 1981.

AN INDUSTRY MAINSTAY

The off-line, pre-numbered weekly ticket, one of the mainstays of the industry in the early '70s, has been seriously impacted by the introduction of the instant game and the numbers offerings during the past decade. Many of the lotteries have chosen to discontinue the game in the last several years because of declining sales.

Today, seven of the 15 lotteries offer the weekly game; they include Pennsylvania (which will be replacing their 50 cents and $1 weekly games with an on-line game in April 1982), New Jersey, New Hampshire, Michigan, Massachusetts, Connecticut and Rhode Island.

In 1980, the weekly game accounted for 9.5 percent of the industry's total sales. The percentage which the games contributed to individual lottery's sales in 1981 varied widely, however. For instance, whereas in New Jersey the lottery's $1 weekly game accounted for 2.5 percent of sales, in New Hampshire, the sweepstakes commission reported that the sales from the "50/50 Sweeps" represented 26 percent of gross receipts in 1981.

A total of 20 lottery bills have already been or are pending in 10 jurisdictions at this time; these areas include Alaska, Colorado, Hawaii, Indiana, Kansas, Minnesota, Missouri, South Carolina, Washington and West Virginia.

USE OF VENDORS
Stimulus To State's Economy

Another point to consider with the implementation of a lottery is the potential stimulus to the economy. The common practice in the U.S. is for lottery tickets to be sold through established retail outlets as opposed to separate retail vendors. Agents earn a set commission on their retail volume. The majority of the lotteries also offer special incentive prizes to spur sales.

The Pennsylvania Lottery, for instance, has 6,200 agents, who have the opportunity to earn a 5 percent commission on sales. The numbers of agents used in several other states are listed in the parenthesis: Delaware (245), Massachusetts (4,000), New Hampshire (850) and New Jersey (3,800). These states also offer their agents a 5 percent commission.

Michigan and New York are among the largest in terms of the number of sales agents with 7,000 and 11,000 respectively. Both lotteries offer their agents a 6 percent commission.

DAILY NUMBERS AGENTS

The daily numbers game was first introduced by the New Jersey State Lottery in 1975. Since that time, 13 of the 15 state lotteries have now implemented an on-line game. (Arizona's laws do not currently permit the game and New Hampshire runs a manual game.) Despite the popularity, not all of a lottery's agents will be licensed to sell the game because the volume of potential business does not merit it.

William Nugent of the Michigan Lottery (which currently has 1,450 agents out of 7,000 selling the daily game) explains the rationale: "We only license some of our agents to sell the 'Daily' since it requires expensive computer equipment, dedicated telephone lines, a maintenance network and special sales training.

We do not currently have the system capacity to add a substantial number of additional 'daily agents,' added Nugent. The Michigan Daily game represented 72.4 percent of the lottery's $501 million in sales in 1981.

In Pennsylvania, 1,700 of the lottery's 6,200 agents sell the daily numbers game. "The marketing division decides who will get on-line terminals," explained Nelson. "We want to pick the agent with the best ability to generate sales in his area, in order to maximize the potential."

The state's numbers game contributed 71 percent of the lottery's $426 million in sales in 1981. The ration of on-line agents to other type agents in other states is 1,400 out of 11,000 in New York, 124 out of 245 in Delaware and 113 out of 850 in New Hampshire.

DISTRIBUTION NETWORK

The distribution network for a lottery typically consists of licensing agents to sell the lottery games, distributing ticket stock to the agents and collecting settlement reports. In the mid-1970s, the majority of the lotteries used banks to provide these middleman services.

Today, New Hampshire, Delaware and Michigan continue with this practice, but New Jersey and Massachusetts primarily use banks for the distribution of instant tickets. In Massachusetts, those agents who are licensed to sell the daily numbers game also have the capability of selling the weekly through their terminals.

In Ohio, the lottery eliminated the use of banks by contracting for the services of Purolator Courier Corp. Courier service is conducted four days a week; drivers using a staggered schedule, pick up settlement reports from vendors as well as drop off the week's allocation of tickets. The Pennsylvania Lottery, although it currently uses banks, also plans to change over to an independent courier service this spring.

Several of the other lotteries, such as Arizona, Illinois, Vermont, Maine and New York, use a direct distribution system. In New York, this involves an independent network of businessmen; the state currently has 17 distributors who buy the instant game from the lottery and distribute it to the agents.

TRANSFER OF FUNDS

Now, with the on-line products, there is no distribution network required because the terminals dispense the ticket stock. In terms of how the agents return the revenues to the lotteries, several use their local banks. In Pennsylvania, the retailer deposits the sum into his local bank and the revenues are electronically transferred to the lottery's depository banks. Likewise, in Delaware, New Hampshire and Massachusetts, the agents settle their accounts on a weekly basis at the bank.

In Massachusetts, the off-line agents pay by check through a courier service. In New Jersey and New York, however, the on-line contractor collects the funds and deposits them in the bank to the credit of the lottery. In Michigan, the agents pay for their weekly operations with a cashier's check postmarked on or before the weekly's deadline.

INDUSTRY SUPPLIERS

Profile Of Companies

There are currently seven companies which supply tickets, computer equipment, consulting services and other lottery products to the state lotteries.

In addition, several other companies have announced new products for the state lotteries market.

Individual profiles of each of these firms follow.

TICKET COMPANIES

The four current suppliers of instant and other tickets for the U.S. markets are Glendinning Companies Inc., Ludlow Specialty Papers, Scientific Games Inc. and Webcraft Games, Inc.

The signal has already come from Washington that there will be a dramatic shift away from the unabated growth in federal spending and taxation. For many states, the current federal cut-backs have raised havoc with several states' attempts at balancing their budget.

☐ GLENDINNING COMPANIES, INC.

Glendinning Companies entered the lottery business in 1975. The company characterizes the move as a natural one, since during the '60s, they innovated and virtually dominated the retail promotional gaming business. During this period, Glendinning designed, produced and sold over 4 billion game tickets for 22 countries and in nine languages worldwide. Since entering the lottery field, Glendinning has executed instant game contracts for Rhode Island, Massachusetts, Ohio, Connecticut, Michigan, Illinois, Maryland and Loto Quebec. At the current time, Glendinning says that it is also the only supplier that can provide both the computer-printed instant ticket or the computer-controlled (plate-printed) ticket.

Glendinning's background in consumer product marketing has brought an impressive impact in the marketing of instant games. The industry is reportedly adopting several of the marketing and promotion programs first pioneered by Glendinning in support of their instant game contracts.

Glendinning has been a multi-national corporation since 1965, five years after its founding. Headquartered in Westport, CT., the company conducts overseas business in London, Paris, Frankfurt and Panama. The latter is Lotec Servicios, S.A. a joint venture with Carvajal, S.A. a major international company with headquarters in Cali, Colombia, S.A. Lotec provides a full range of lottery products and services to lotteries in Central and South America, Mexico and the Caribbean area.

Direct inquiries to Dept. PGM, Glendinning Companies, Inc., 1 Glendinning Place, Westport, CT 06880.

☐ LUDLOW SPECIALTY PRODUCTS

Ludlow Security Products, a division of Ludlow Corporation, is a full service pouch game lottery supplier. Since 1975, Ludlow has been supplying 100 percent of the tamperproof pouch stock used in the Canadian pouch games, and, in addition, Ludlow was a prime contributor in setting up Secursystems of Newburgh, New York to print and pouch the New York Olympic Lottery ticket. Recently, Ludlow was notified by the State of Maryland of its intent to award Maryland's pouch game contract to Ludlow Security Products.

Ludlow is one of the largest printing and pouching companies in the United States. They have 25 printing presses; make their own inks and cylinders, and manufacture their own pouch machines. Pouching, in fact, is one of their key businesses. Ludlow has been a pioneer in retort pouch development, a product that has many uses in the industrial and military fields.

Today, Ludlow Security Products has set up its own independent lottery plant to print and pouch lottery tickets. They believe that their full service capabilities fit into what the lotteries are looking for in a supplier - a company that has printing, pouching, and coating capabilities.

Ludlow regards their pouch games as an opportunity for the states to increase their total product mix with an exciting new product offering, which features increased sales potential, enhanced play value, the novelty of a gift or surprise, versatility of game concepts, flexibility of prize structure, and savings in agent commissions.

Direct inquiries to Dept. PGM, Ludlow Specialty Products, P.O. Box 300, Cummings St., Ware, MA 01082.

☐ SCIENTIFIC GAMES, INC.

Scientific Games introduced the first 'instant lottery' game in the U.S. in May 1974 in Massachusetts. Since then, Scientific Games reports they have provided almost $5 billion instant game tickets to the legal U.S. and Canadian lotteries.

"Scientific Games continually strives to be the leader in ticket design and ticket security. It was Scientific Games that produced the first secure sheet-fed ticket, and it was Scientific Games that first advanced the production process to develop the totally random computer printed ticket now offered by all lottery ticket vendors. Scientific Games continues its leadership in ticket security, even with the computer produced ticket, by offering unique security features not offered by any other supplier," said Scientific Games' chairman, John Koza.

Although Scientific Games is best known for the production of secure rub-off instant games in the U.S., it is less well known that Scientific Games also reportedly produces more than 60 percent of all the draw-type lottery tickets used by the U.S. state lotteries. Since the state lotteries often produce their own draw-type tickets, Scientific Games calculates that their production actually represents over 96 percent of all draw-type tickets that are produced by private companies for use by U.S. state lotteries.

In addition to supplying the lotteries with game tickets, Scientific Games also provides the lotteries with computer programming support services, market planning services and market research services.

Because of its recent merger with Bally Manufacturing Corp., the largest manufacturer of electronic video games, Scientific Games reports that it will continue its leadership in game innovation by developing the 4th generation of lottery products - the 'Consumer-Operated Video Lottery Terminal.'

Direct inquiries to Dept. PGM, Scientific Games, Inc., 2625 Cumberland Parkway, N.W., Atlanta, GA 30339.

☐ WEBCRAFT GAMES, INC.

Webcraft has been in the high impact, direct response marketing field for 11 years providing the industry with direct marketing promotional pieces, including commercial games and sweepstakes. In 1974, the company became a wholly owned subsidiary of Beatrice Foods, a conglomerate which last year ranked 31st on the Fortune 500 list with sales of $8.7 billion.

In early 1981, the company acquired all of the lottery business, know-how, design data, systems software and techniques, rights to lottery patents and the personnel of System Operations, Inc., the public gaming subsidiary of Mathematica, Inc.

Mathematica first entered the lottery market with the start-up of the New Jersey Lottery in 1971; the company was instrumental in the design and implementation of 12 out of the 15 U.S. state lotteries.

Since early 1981, Webcraft has entered the state-operated lottery market and has been awarded instant ticket contracts in Ohio, Connecticut and Arizona.

The company's products and services, in addition to instant lottery tickets/system include commercial games and product promotional programs that can be in the form of rub-off games, numbers games, pop-up graphics, wash-off games, newspaper inserts, coupon promotions or combinations thereof. With the acquisition of the lottery system design and implementation and know-how from Mathematica, the company also provides technical and management consulting services in all aspects of public gaming.

The company specializes in all-in-line operations and has 18 speed web presses that are customized to meet specific industry needs and standards. Webcraft also reportedly is the world's largest in-line Mead Dijit facility. This type of equipment is used for the production of WEBJET instant tickets. The Brunswick, New Jersey facility was specifically established to serve the instant lottery and high security commercial games markets.

Direct inquiries to Dept. PGM, Webcraft Games, Inc., Rt. 1 and Adams Station, New Brunswick, NJ 08902.

ON-LINE SYSTEM SUPPLIERS

Three companies currently supply the states with computer systems for their on-line numbers games. They include American Totalisator Company, a division of General Instrument Corp., Control

Data Corporation's Automated Wagering Systems Division and Gaming Systems, Inc. A new company, Syntech International, Inc. is now offering these systems also.

☐ AMERICAN TOTALISATOR CO.

American Totalisator Company, Inc. (AmTote) is a division of General Instrument Corp. and has been involved since its inception in 1933 in the wagering industry. AmTote's early experiences began with pari-mutuel wagering systems for the horse racing industry and continued to grow with the expansion of racing over the years. Today, AmTote is the world's leading supplier of pari-mutuel wagering systems to the racing industry, currently serving more than 180 racetracks and racing associations.

AmTote is also the leading supplier of on-line systems for government operated off-track betting facilities. It provides most of the off-track betting requirements for New York State and the entire off-track system in Connecticut, the only legalized pari-mutuel off-track wagering system in North America.

AmTote introduced the first on-line select-your-own number daily lottery system in the state of New Jersey in 1975. Since that time, AmTote has provided the initial on-line daily lottery to seven of the 13 states currently operating on-line lotteries.

The combined annual wagering handle processed by all AmTote systems totaled more than $13 billion during 1981 and 4.5 billion transactions.

AmTote's wagering system activities include a full range of engineering, software and general support services customized to the requirements of its customers. Current state-of-the-art technology provided by AmTote includes its TIM 300 series ticket issuing machines with its very high speed printer and sell/pay capabilities. Specialized versions of the TIM 300 series terminals have been designed and include the TIM 350 currently used in Ohio and the TIM 360 with its integral mark reader for lottery bet slip reading and cashing purposes, in use in New Jersey and Massachusetts and in other wagering systems internationally.

The company believes that the central computer systems that it has provided to the wagering industry have satisfied the most demanding performance requirements to date, including such capabilities as the initial implementation of multiple game operations to lotteries, the largest off-track betting system in operation in terms of the numbers of terminals and monies wagered and the highest level of throughput and system reliability and performance. The annual gross on-line sales of the five states to which AmTote currently provides lottery systems and/or services, New Jersey, Ohio, Massachusetts, Maine and Vermont, is approximately $1 billion.

Direct inquiries to Dept. PGM, AmTote Systems Division General Instrument Corp., 11126 Mc Cormick Road, Hunt Valley MD 21031.

☐ CONTROL DATA CORP.

As Control Data approaches its fifth anniversary as a supplier of on-line lottery systems, the company believes it has played a significant role in the rapid growth of this industry. Since the start of the company's daily numbers game system in Pennsylvania on March 1, 1977, Control Data has implemented four additional on-line game systems in Delaware, Illinois, Maryland and New York.

There are now more than 5,000 agent terminals installed in these five states, more than half of the total agent base in the 13 states now offering on-line games. The company's newest system for the New York Lottery offers lotto, in addition to 3-digit and 4-digit games. Together, the five systems processed more than $30 million in sales in a single week last fall.

During the next five years, the federal government cutbacks, together with inflation, will no doubt create additional demand by states for the revenues generated by lotteries. As a major fortune top-200 manufacturer, with sales exceeding $4 billion in 1981, the company believes that it will be able to provide the resources that only an experienced, financially stable corporation can offer.

Control Data's on-line wagering processing systems are totally developed by its own staff. The company manufactures the cyber-18 dual processor computers, peripheral equipment and terminals that comprise its system hardware. All programming is developed by the company's services staff.

Many new products and services will be available to states during the next five years. Control Data reports that its cyber-18 memory expansion units (MEU) will enable it to align 6,000 or more agent terminals in a single, integrated secure system. The company's computer-aided dispatch system (CADS), a customized Control Data service which the company supplies to its wagering systems users, offers fast, reliable, remedial and preventive maintenance, reports a company spokesman.

Direct inquiries to Dept. PGM, Control Data Corp., Automated Wagering Division, 1350 Avenue of the Americas, NY, NY 10019.

☐ GAMING SYSTEMS CORP.

Gaming Systems Corp., Providence, Rhode Island, is dedicated exclusively to the state lottery industry. The company provides management, consulting and design services as well as computer terminal and communications hardware to governmental lotteries throughout the world. The company has installed and continues to operate three of the 12 on-line lottery systems used by the U.S. lotteries today. The company also installed all on-line operations in the Canadian provinces, including the first computerized lotto games in the world.

The spectrum of the company's services and products is not limited to on-line computerized games, however, it also includes consulting and advisory services to governmental jursidictions planning the administration of both off-line and on-line games. Gaming Systems' ticket division provides design services and computer support for the production and operation of passive and instant lottery games.

The company commenced operations in 1976 as the Gaming Systems Division Datatrol Inc. In early 1981, Gaming Systems Corp. was spun off as an independent corporate entity dedicated exclusively to the lottery industry. The company is owned by its management and a strong financial backer (Bass Brothers Enterprises, Inc., Fort Worth, Texas).

Involvement of its management and several members of its professional staff in state lotteries goes back to 1970 when two of its principals were instrumental in the development of the New Jersey Lottery. Prior to 1976, the company principals were involved in the implementation of lotteries in Pennsylvania, Rhode Island, Delaware, Maine, Michigan, Illinois and Ohio. In all, its principals and professional staff have provided consulting and design services and/or computer hardware to 18 lottery jurisdictions in Europe and North America, including 14 of the 15 U.S. state lotteries.

Direct inquiries to Dept. PGM, Gaming Systems Corporation, 101 Dyer Street Providence, RI 02903.

VIDEO LOTTERY DEVICES

The new video lottery devices are now becoming available to the state lottery market. Though yet to be installed in a state, they are regarded by many as the next logical step in lottery product development.

☐ GAME-A-TRON CORP.

Game-A-Tron Corp., a Connecticut-based manufacturer of video gaming and amusement devices, is expanding its product line to include video lottery devices. According to a company spokesman, Game-A-Tron is considering adapting its current amusement machines such as blackjack, into lottery devices.

The Lot

Direct inquiries to Dept PGM, Game-A-Tron Corp., 931 W. Main St., New Britain, CT 06051.

☐ HARWYN INDUSTRIES CORP.

Harwyn Industries Corp., a video gaming manufacturer with Eastern operations based in Atlantic City, New Jersey, plans to expand its product line to include the new video lottery devices. The company reports that it currently has two video machines, the 'Pick A Winner' and 'High-Low Poker' games, which could be converted into lottery devices. Harwyn is also designing an on-line accounting system for use with the free-standing lottery devices.

Direct inquiries to Dept PGM, Harwyn Industries Corp., 1835 Atlantic Ave., Atlantic City, NJ 08401.

☐ IGT

International Game Technology (formerly SIRCOMA), which reports that it is the world's leader in video gaming machines, is expanding its product line into the lottery field. The six-year old company, headquartered in Reno, Nevada, with sales offices in Las Vegas and Atlantic City, estimates sales at $60 million in 1981.

IGT manufactures a family of video gaming machines which include keno, poker, black jack, video slot machines, dice and others; they have 20,000 games on location. The company reports all of the models are readily modifiable for lottery use.

In particular, the double-screen video keno (lotto) machine has an 80-digit matrix. The player, using a special light pen, selects between four and 10 numbers by marking the screen as they would a ticket.

The IGT video games also provide complete security. Jackpots ranging from $250,000 to $1 million are not uncommon for this equipment. To help monitor these large sums, the machines include a complete auditing system that records coins in, coins out, diagnostic readings and much more. The microprocessor-based data collection system can be hooked up to a computer system to report on a single machine or a bank of machines. The system automatically provides an alert if a machine is malfunctioning.

The company reports they are currently spending $4 million annually on engineering and research and development, with 55 engineers on staff and 103 service personnel.

Direct inquiries to Dept. PGM, IGT, 520 S. Rock Blvd., Reno, NV 89502

☐ OMEGA PRODUCTS, INC.

Omega Products, Inc., a manufacturer of video amusement gaming machines, has announced plans to expand into the video lottery market. The company originally started in the late '70s, through a Japanese firm's request to design a poker board. Omega continued with the decision in 1980 to utilize the board for the manufacturing of a complete

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machine.

Drawing on the innovative talent of additional electronic engineers, prototypes were developed for video card games, which later evolved into present game offerings of double-up draw poker, black jack, keno and a video instant lottery machine. Omega reported gross sales of over $4 million in 1981.

According to a company spokesman, Omega has the distinction of marketing the most realistic card graphics in the industry for their double-up draw poker and black jack amusement games. Enthusiastic marketing acceptance necessitated the relocation of the company's manufacturing facilities in June 1981 to a two-building complex of 25,000 square feet in Carlsbad, California.

Continuing their mode of marketing through a national distributor/service network, overseas penetration has been realized by the execution of a substantial marketing agreement with a major Australian manufacturing distributor. Additionally, kit agreements have been concluded in Europe. Revenues in 1982 are projected to exceed $15 million.

Direct inquiries to Omega Products, Inc., 6241-A Yarrow Dr., Carlsbad, CA 92008

☐ PRIZE BOX PRODUCTIONS

Prize Box Productions, a promotionally oriented firm located in Los Angeles, California, has been in the process of developing a microprocessor-based 2nd generation lottery device for the past two years. The company's initial game has been utilized by approximately 1,200 supermarkets in 20 states as of this time.

The company's current model is loaded with five selections, which include a numbers game, an instant numbers game, a matching money game, a fruit symbols game and a poker game. Prize Box is positioning its prototype lottery device as a 25 cents game, with a maximum prize of $1,000.

Direct inquiries to Dept. PGM, Prize Box Productions, 11777 San Vincente Blvd., Los Angeles, CA 90049

☐ SYNTECH INTERNATIONAL

Syntech International was formed in November 1980 to develop, manufacture and operate transaction processing systems for numerous applications. One of the company's primary areas of concentration is in the lottery field. Syntech first entered the lottery industry, through its wholly-owned subsidiary, Multigame Ventures, Inc., with the receipt of a contract from the New York State Lottery to install and operate a video lottery device.

Syntech specializes in on-line computerized systems. The company has developed a unique touch screen terminal that it reports is extremely easy to operate and highly flexible. It is designed to allow operation by the general public as a vending device. A single unit has the flexibility to allow numerous different types of games (numbers game, lotto, instant games, bingo games, etc.) to be run on the same terminal.

Syntech also manufactures a central computer, called the 'Marathon Nonstop', for controlling on-line lottery terminals; the Marathon is a confederation of microcomputers tied together on a high-speed serial bus in a redundant, pipeline configuration.

Syntech reported gross receipts of $6.1 million in 1981 and the company's present sales rate is projected at $9 million per year.

Direct inquiries to Dept. PGM, Syntech International, P.O. Box 28810, Dallas, TX 75228 ☐

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required to share time thereby compromising the lottery's security. Criminal offender record information should be available for use in licensing decisions. Failure of sales agents to promptly pay proceeds of lottery sales after reasonable demand should be a criminal offense. Trade secrets of vendors should be protected from disclosure under Freedom of Information Statutes.

In summary, legislation should be drafted using the store of lottery experience developed in the past 10 years and not simply be modeled on existing lottery laws adopted when this store of experience was not available. The maximum of flexibility should be obtained in the original enactment as once carved in stone laws are hard, if not impossible, to change. The operation of the lottery should be insulated, as far as is possible, from the operation of the political process. The particular areas where governmental restraints are counterproductive should be identified and specifically modified or waived as to lottery operations.

Legislators must be educated to the fact that lotteries are no longer a novel and dangerous idea but have become an established and accepted source of significant public revenue. To require them to operate under laws enacted in the horse and buggy days of the industry serves no legitimate interest.

TAB D

LEGALIZING A STATE LOTTERY

Robert L. Mote, Scientific Games, Inc., July 9, 1984

In the United States, state lotteries are authorized in 17 states, the District of Columbia, Puerto Rico and Guam. (Local lotteries are also authorized in certain states such as Nebraska.) The remaining states prohibit lotteries either by statute, by a constitution provision, or by both. To establish a lottery, one must first determine the exact state legal prohibition which must be removed, *i.e.*, a state constitutional prohibition or merely a statutory prohibition. The chart on the following page indicates those non-lottery states which would require a constitutional amendment to legalize a state lottery.

Where no constitutional amendment is required, a state lottery can be established merely by legislative enactment. Such can occur in either of two ways: (1) passage of lottery legislation by the State Legislature; or (2) by an initiative action, *i.e.*, a "grass roots" petition drive by the people to place the proposed lottery legislation on the ballot for public vote. The following chart also indicates those states in which lottery legislation may be enacted by initiative.

Where there is a constitutional prohibition against a lottery, one must both remove the prohibition and establish the lottery. This can be done in one combined enactment (a "self-executing" constitutional amendment) or can be done by a separate constitutional amendment and separate implementing legislation. The reasons most often mentioned to have a combined authorizing and implementing constitutional amendment are that the people will know exactly what type of lottery they are considering when the constitutional amendment is subject to a public vote and, after the vote, the lottery (and its revenues to the state) could commence immediately.

There are three possible ways to establish a lottery where there is a constitutional amendment required: (1) a constitutional amendment placed on the public ballot by the State Legislature which is either self-executing, or which merely authorizes a lottery and would require corresponding implementing legislation (enacted by the Legislature or pursuant to public initiative); (2) a self-executing constitutional amendment placed on the ballot by public initiative; or (3) an authorizing constitutional amendment and separate implementing legislation placed on the ballot simultaneously by public initiative. Whether all 3 of these alternatives (or variations thereof) are available varies in each state as indicated on the chart.

LOTTERY LEGALIZATION REQUIREMENTS

STATE	CONST. AMEND. REQ'D	LEG. VOTE REQ'D ON CONST.RES.	CONSID. BY 2 SESSIONS REQUIRED	CONSTITUT. INITIATIVE	LEGISLAT. INITIATIVE
Alabama	Yes	3/5	No	No	N/A
Alaska	No	2/3	No	N/A	Yes
Arkansas	Yes	Majority	No	No	N/A
California	Yes	2/3	No	Yes	N/A
Florida	Yes	3/5	No	Yes	N/A
Georgia	Yes	2/3	No	No	N/A
Hawaii	No	(a)	(a)	N/A	No
Idaho	Yes	2/3	No	No	N/A
Indiana	Yes	Majority	Yes	No	N/A
Iowa	No	Majority	Yes	N/A	No
Kansas	Yes	2/3	No	No	N/A
Kentucky	Yes	3/5	No	No	N/A
Louisiana	Yes	2/3	No	No	N/A
Minnesota	Yes	Majority	No	No	N/A
Mississippi	Yes	2/3(b)	No	No	N/A
Missouri	Yes	Majority	No	Yes	N/A
Montana	No	2/3	No	N/A	Yes
Nebraska	No	3/5	No	N/A	Yes
Nevada	Yes	Majority	Yes	Yes	N/A
New Mexico	No	Majority	No	N/A	No
North Carolina	No	3/5	No	N/A	No
North Dakota	No	Majority	No	N/A	Yes
Oklahoma	No	Majority	No	N/A	Yes
Oregon	Yes	(c)	No	Yes	N/A
South Carolina	Yes	2/3(d)	Yes(d)	No	N/A
South Dakota	No	Majority	No	N/A	Yes
Tennessee	Yes	(e)	Yes(e)	No	N/A
Texas	Yes	2/3	No	No	N/A
Utah	Yes	2/3	No	No	N/A
Virginia	No	Majority	Yes	N/A	No
West Virginia	Yes	2/3	No	No	N/A
Wisconsin	Yes	Majority	Yes	No	N/A
Wyoming	No	2/3	No	N/A	Yes

(a) 2/3 vote in each house at one session, or majority vote in each house in two sessions.

(b) The 2/3 must include not less than a majority elected to each house.

(c) Majority to amend. 2/3 to revise.

(d) 2/3 first passage; majority after public ratification.

(e) Majority first passage; 2/3 second passage.

SOURCE: THE BOOK OF THE STATES: 1982-83

When one considers drafting the constitutional amendment, an additional consideration (besides whether to make it a mere "authorizing" amendment or a complete "self-executing" amendment) is whether there are any other aspects of the anticipated lottery which might be effected by the particular state's constitution. For example, if civil service requirements are contained in a state's constitution, do they need to be amended to exempt certain lottery administrative positions? Or, is there some constitutional limit on government taxing or spending from which the lottery should be exempt? These are just a few examples which I have seen recently. Careful drafting of the constitutional amendment requires a close reading of the proposed implementing legislation to determine whether there are any possible provisions in the state's constitution which require simultaneous amendment so as to give full legal effect to the implementing legislation.

If a lottery is to be established by a State Legislature through the vehicles of an "authorizing" constitutional amendment and corresponding implementing legislation, it is appropriate to consider the timing of the introduction of each in the State Legislature. Legislative sponsors oftentimes find it effective to introduce both simultaneously, with the legal effectiveness of the implementing legislation being made contingent on the affirmative public vote on the constitutional amendment. This is so for at least 3 reasons: (1) when both fellow legislators and the public vote on the constitutional amendment generally authorizing a lottery, they will know precisely what kind of a lottery they are getting; (2) the implementing bill can be drafted to contain many provisions which diffuse some of the arguments which might be raised by opponents during the debate on the constitutional amendment; and (3) if the state has to wait until after the public approval of the constitutional amendment before it considers the implementing legislation, it would lose at least one full year of lottery revenues which might be badly needed by the state. (These same three reasons also justify combining the authorizing amendment with the implementing legislation into one combined, self-executing constitutional amendment.)

When one considers drafting the implementing legislation, numerous factors must be taken into consideration. Ideally, the legislation should be drafted so that: (1) it creates a completely secure, fraud-proof and accountable operation; (2) it allows sufficient flexibility so that the lottery can be operated as an efficient and effective "business" which both accommodates the desires of the public and maximizes net revenues to the state; (3) it has built in mechanisms to deal with criticisms of lotteries; (4) it addresses any other unique state legal conditions, i.e., it is "customized" to the state in which it is to be introduced; and (5) it designates a politically and economically appropriate beneficiary of the lottery net revenues (e.g., general fund, education, senior citizens, transportation, etc.).

Over the years, we have been involved in drafting model implementing legislation which is designed to accommodate the first three of the above-mentioned goals. The process has involved reviewing the lottery legislation of all lottery states; reviewing amendments to such legislation which the passage of time has made necessary; conferring with lottery administrations and other lottery vendors about desirable provisions in lottery legislation; and consulting professional legislative drafters to embody the results of all of this research into a workable "model bill". Although we initiated the process, we view the resulting "model bill" which appears at the end of this article as a lottery industry product.

In reviewing the model bill, some comments are appropriate about how it is designed to address the first 3 goals of a model bill set out above:

1. To create a secure, fraud-proof and accountable lottery operation, the model bill has a number of features:
   - There are specific qualifications of Commission members, such as law enforcement and CPA backgrounds (§1010).
   - There are similar qualifications for the Lottery Director (§1018, 1020), lottery employees (§1021), and the Assistant Director of Security (§1023).
   - There is required coordination and information sharing with the state's law enforcement agencies (§1024).
   - There is required evaluation of lottery operations with a view towards improvements dictated by time and experience (§1026).
   - There are extensive accountability requirements so that all monies received and prizes paid will be carefully accounted for on a daily basis, checked and rechecked by the most modern methods available, be subjected to regular state reporting requirements, and be strictly audited by both state agencies and independent outside auditors (§§1027, 1028, 1029, 1049, and 1050).
2. To allow sufficient flexibility so that the lottery can function as an efficient and effective business which both accommodates the public interest and maximizes revenues to the state, the model bill has a number of features:

- Within certain restrictions, the Commission can authorize a variety of types of lottery games (§1034), of the number and value of prizes, including a specific authorization for merchandise prizes and annuities, the absence of which authorization has caused problems for some lotteries (§1035), of the method of determining winners (§1036), the cost of playing a game (§1037), and the method of validating and paying prizes (§1038).

- The Commission, within certain limitations, establishes lottery game retailers (ticket-sellers) by contract instead of through a cumbersome and inappropriate licensing process (§§1041 and 1042), and retains certain flexibility in setting their sales commissions (§1045). Moreover, to deal with a problem that has surfaced in some states, for retailers whose rent is based in part on their retail sales, only their lottery commissions (and not the retail price of playing a lottery game) is counted as "retail sales" for purposes of rent calculation (§1045).

3. To create "built-in" mechanisms to rebut the typical criticisms of lotteries, the model bill has numerous features. For example:

- To rebut the unfounded attacks about internal fraud in the lottery operations, all lottery employees are subject to careful background checks (§1023) and all lottery operations are subject to comprehensive security evaluations by an independent firm experienced in security procedures (§1032).

- To rebut the unsubstantiated allegations of infiltration by organized crime, all third parties who propose to contract with the lottery are required to make extensive disclosures to allow for a full "evaluation by the lottery of the competence, integrity, background, character and nature of the true ownership and control" of such third parties (§§1052, 1042).

- To rebut the paternalestic criticism that lotteries are played primarily by the poor who are induced to play by misleading advertising, periodic studies by experienced independent firms of the demographics of lottery players (§1030) and the nature of lottery advertising (§1031) are conducted, with resulting formal reports presented to all appropriate state officials and the State Legislature to provide the basis, if necessary, for appropriate remedial action.

These are just some examples of how the model bill accomplishes the first 3 goals of any lottery implementing legislation. The choice of beneficiary and the local "customizing" are something which must be accomplished by competent legislative drafters in each state. One word of warning is appropriate in this regard. In "customizing" the model bill to accommodate individual state situations and legal structures, one should avoid totally redrafting the model bill, i.e., "reinventing the wheel", since the model bill has been carefully drafted to be internally consistent and comprehensive, and to assure a secure, "clean", and successful lottery. As one well-respected Lottery Director stated:

> "It is my opinion that the model bill's provisions are both equitable and protective of the public's interests. Likewise, they are conducive to an efficient and successful lottery operation."

We trust that this discussion and the following model bill will prove helpful to legislators who are considering sponsoring a lottery in their state.

JUNE 21, 1984

MODEL BILL FOR THE ESTABLISHMENT OF A STATE LOTTERY

AN ACT to establish a state lottery.

Be it enacted by the People:

ARTICLE 1

GENERAL PROVISIONS AND DEFINITIONS

§ 1001 Citation

This Chapter shall be known and may be cited as the State Lottery Act.

§ 1002 Purpose and Intent

The people of the state declare that the purpose and intent of this Chapter is to provide additional monies to benefit the public purpose described in this Chapter without the imposition of additional or increased taxes through the implementation of a state-operated lottery.

§ 1003 Laws Not Affected

Nothing contained in this Chapter shall be construed to repeal or modify any existing State law with respect to gambling, except that the state-operated lottery established by this Chapter shall not be subject to such laws.

§ 1004 Prohibition on Use of State Funds

It is the intent of this Chapter that the state-operated Lottery established by this Chapter shall be a self-supporting revenue-raising agency of state government. No appropriations, loans, or other transfer of state funds shall be made to the State Lottery Commission except for the temporary line of credit for initial start-up costs of the Lottery as provided in this Chapter.

§ 1005 Public Purpose to Benefit from Lottery

The net revenues of the Lottery shall be used to benefit the public purpose of __________. It is the intent of this Chapter that the net revenues generated by the state-operated lottery established by this Chapter shall supplement, rather than be used as substitute funds, for the total amount of money allocated for the public purpose.

§ 1006 Allocation of Revenues

At least 84% of the total annual revenues from the sale of Lottery tickets or shares, as described in this Chapter, shall be returned to the public in the form of prizes and net revenues benefiting the public purpose of ____________________. At least 50% of the total annual revenues as described in this Chapter shall be returned to the public in the form of prizes as described in this Chapter. Unclaimed prize money as described in this Chapter shall revert to the benefit of the public purpose as described in this Chapter. No more than 16% of the total annual revenues as described in this Chapter shall be allocated for payment of expenses of the Lottery as described in this Chapter. To the extent that expenses of the Lottery are less than 16% of the total annual revenues as described in this Chapter, any surplus funds shall also be allocated to the benefit of the public purpose as described in this Chapter.

§ 1007 Governing Definitions

The definitions contained in this Chapter shall govern the construction of this Chapter unless the context requires otherwise.

(a) "Lottery" or "State Lottery" means the State Lottery established and operated pursuant to this Chapter.

(b) "Commissioner" means one of the members of the Lottery Commission appointed by the Governor pursuant to this Chapter to oversee the State Lottery.

(c) "Director" means the Director of the State Lottery appointed by the Governor pursuant to this Chapter as the chief administrator of the State Lottery.

(d) "Lottery Commission" or "Commission" means the five member body appointed by the Governor pursuant to this Chapter to oversee the Lottery and the Director.

(e) "Lottery Game" or "Game" means any procedure authorized by the Commission whereby prizes are distributed among persons who have paid, or unconditionally agreed to pay, for tickets or shares which provide the opportunity to win such prizes.

(f) "Person" means any natural person or corporation, trust, association, partnership, joint venture, subsidiary, or other business entity.

(g) "Lottery Game Retailer" or "Retailer" means a person with whom the Lottery Commission has contracted for the purpose of selling tickets or shares in Lottery Games to the public.

(h) "Lottery Vendor" or "Vendor" means any person who submits a bid, proposal or offer as part of a procurement for a contract for goods or services for the State Lottery.

(i) "Lottery Contractor" means a person with whom the Lottery has contracted for the purpose of providing goods and services for the State Lottery.

(j) A "Major Procurement" is a procurement for a contract for the printing of tickets for use in any Lottery Game, for any goods or services involving the receiving or recording of number selections in any Lottery Game, or for any goods or services involving the determination or generation of winners in any Lottery Game.

ARTICLE 2

STATE LOTTERY COMMISSION

§ 1008 Creation of Commission

The State Lottery Commission is hereby created in state government.

§ 1009 Commission Membership; Appointment; Vacancies; Removal

(a) The State Lottery Commission shall consist of five members appointed by the Governor and confirmed by the Senate who shall serve at the pleasure of the Governor.

(b) The members shall be appointed for terms of five years, except of those who are first appointed: one member shall be appointed for a term of two years, one member shall be appointed for a term of three years, one member shall be appointed for a term of four years, and two members shall be appointed for a term of five years.

(c) All initial appointments shall be made within 30 days of the effective date of this Chapter.

(d) Vacancies shall be filled within 30 days by the Governor for the unexpired portion of the term in which they occur.

(e) The Governor may remove any Commissioner upon notification to the Commission and the Secretary of State.

§ 1010 Qualifications of Commissioners

At least one of the Commissioners shall have a minimum of five years experience in law enforcement, and at least one of the Commissioners shall be a certified public accountant. No person shall be appointed as a Lottery Commissioner who has been convicted of a felony. No more than three members of the Commission shall be members of the same political party.

§ 1011 Compensation and Expenses

Lottery Commissioners shall be compensated at the rate of one hundred dollars ($100) for each day engaged in Commission business. Commission members shall be reimbursed for actual expenses incurred on Commission business, including but not limited to, necessary travel expenses.

§ 1012 Powers and Duties of the Commission

The Commission shall exercise all powers necessary to effectuate the purposes of this Chapter. In all decisions, the Commission shall take into account the particularly sensitive nature of the State Lottery and shall act to promote and ensure security, honesty, fairness, and integrity in the operation and administration of the Lottery.

§ 1013 Annual Selection of Chairperson

The Commission shall select annually a Chairperson from its membership.

§ 1014 Meetings; Records

Meetings of the Commission shall be open and public in accordance with the provisions of State law concerning open meetings. Records of the Commission shall be open and available to the public in accordance with the provisions of any State law concerning the availability of public documents or freedom of information. The Commission shall meet with the Director not less than monthly to make recommendations and set policy, to approve or reject reports of the Director, to promulgate rules and regulations, and to transact such other business that may be properly brought before it. The Chairperson or a majority of the members of the Commission then in office shall have the power to call special meetings of the Commission upon advance written notice to all the members of the Commission and the Director.

§ 1015 Quorum; Voting

A quorum of the Commission shall consist of a majority of the members of the Commission then in office. All decisions of the Commission shall be made by a majority vote by a majority of the number of Commissioners then in office.

§ 1016 Reports

The Commission shall make quarterly and annual reports of the operation of the Lottery to the Governor, Attorney General, State Controller, State Treasurer, and the Legislature. Such reports shall include a full and complete statement of Lottery revenues, prize disbursements, expenses, net revenues, and all other financial transactions involving Lottery funds.

ARTICLE 3

STATE LOTTERY DIRECTOR

S 1017 Appointment and Removal of Director

The Governor shall appoint, subject to confirmation of the Senate, a Director within thirty days of the effective date of this Chapter. The Director shall be responsible for managing the affairs of the Commission. The Governor may remove the Director upon notification to the Commission and the Secretary of State. The Director shall be exempt from any State civil service requirements.

S 1018 Qualifications of the Director

The Director shall be qualified by training and experience to direct the operations of a state-operated lottery. No person shall be appointed as Lottery Director who has been convicted of a felony.

S 1019 Salary

The Director shall be compensated at a salary equal to 95% of the salary of the Governor. The Director shall render full-time attention to the duties of his office.

§ 1020 Duties, Powers, and Jurisdiction

The Director shall, subject to the approval of the Commission, perform all duties, exercise all powers and jurisdiction, assume and discharge all responsibilities, and carry out and effect all purposes provided by this Chapter. The Director shall act as Secretary and Executive Officer of the Commission. The Director shall implement and operate the Lottery in accordance with this Chapter, the rules and regulations promulgated by the Commission, and under the guidance of the Commission. In all decisions, the Director shall take into account the particularly sensitive nature of the State Lottery and shall act to promote and ensure security, honesty, fairness and integrity of the operation and administration of the Lottery.

§ 1021 Power to Hire

The Director shall hire, pursuant to the approval of the Commission, such professional, clerical, technical and administrative personnel as may be necessary to carry out the provisions of this Chapter. No person shall be employed by the Lottery who has been convicted of a felony.

§ 1022 Assistant Directors

For the purpose of fulfilling his responsibilities, the Director may appoint and prescribe the duties of no more than four Assistant Directors as he deems necessary. The Assistant

Directors shall be exempt from any State civil service requirements. The compensation of each Assistant Director shall be established by the Commission, but none shall exceed 95% of the salary of the Director. The Director shall supervise each Assistant Director. The Director may designate one of the Assistant Directors as the Deputy.

§ 1023 Assistant Director for Security

One of the Assistant Directors shall be responsible for a security division to assure security, honesty, fairness and integrity in the operation and administration of the Lottery, including but not limited to, an examination of the background of all prospective employees, Lottery Game Retailers, Lottery Vendors and Lottery Contractors. The Assistant Director for Security shall be qualified by training and experience, including at least 5 years of law enforcement experience, and a P.O.S.T. certificate (or the equivalent) and knowledge and experience in computer security, to fulfill these responsibilities. The Assistant Director for Security shall, in conjunction with the Director, confer with the Attorney General or his designee as the Assistant Director of Security deems necessary and advisable to promote and ensure security, honesty, fairness, and integrity of the operation and administration of the Lottery. The Assistant Director for Security, in conjunction with the Director, shall report any alleged violation of law to the Attorney General and any other appropriate law enforcement authority for further investigation and action. The Assistant Director for Security shall have peace officer status in this State.

§1024 Criminal Identification Information Available to Lottery

Upon the request of the Assistant Director for Security, in conjunction with the Director, the Attorney General and the State Police shall furnish to the Director of the State Lottery and the Assistant Director for Security such information as may tend to assure the security, honesty, fairness, and integrity in the operation and administration of the Lottery as they may have in their possession, including, but not limited to, manual or computerized information and data. For the purpose of requesting and receiving such information, the Lottery will be considered to be a "criminal justice agency" and its enforcement agents to be "peace officers." Enforcement agents, designated as such by the Lottery, shall have the same authority with respect to service and execution of warrants of arrest and search warrants as is conferred upon peace officers of this State.

§ 1025 Coordination with Commission

The Director shall confer as frequently as necessary or desirable, but not less than monthly, with the Commission, on the operation and administration of the Lottery. The Director shall make available for inspection by the Commission, upon request, all books, records, files and other information and documents of the Lottery, and shall advise the Commission and recommend such matters as the Director deems to be necessary and advisable to improve the operation and administration of the Lottery.

§ 1026 Study of Lottery Systems; Recommendations for Improvement

The Director shall make an on-going study of the operation and the administration of the lotteries which may be in operation in other states or countries, of available literature on the subject, of federal laws which may affect the operation of the Lottery, and of the reaction of citizens of the State to existing or proposed features in Lottery Games, with a view toward recommending improvements that will tend to serve the purposes of this Chapter. The Director may make recommendations to the Commission, Governor, and Legislature on any matters concerning the secure and efficient operation and administration of the Lottery and the convenience of the purchasers of tickets and shares.

§ 1027 Accountability; Books and Records

The Director shall make and keep books and records which accurately and fairly reflect each day's transactions, including but not limited to, the distribution of tickets or shares to Lottery Game Retailers, receipt of funds, prize claims, prizes paid directly by the Lottery Commission, expenses and all other financial transactions involving Lottery funds necessary so as to permit preparation of daily financial statements in conformity with generally accepted accounting principles and to maintain daily accountability.

§ 1028 Monthly Financial Reports

The Director shall make a monthly financial report to the Commission, the Governor, the State Controller, the State Treasurer and the Legislature. Such report shall include a full and complete statement of Lottery revenues, prize disbursements, expenses, net revenues, and all other financial transactions involving Lottery funds for the month.

§ 1029 Independent Audit of Lottery Finances

The Director shall engage an independent firm of certified public accountants to conduct an annual audit of all accounts and transactions of the Lottery. The audit report shall be presented to the Commission, the Governor, the State Controller, the State Treasurer, and the Legislature.

§ 1030 Independent Study of Demographics of Lottery Players

After the first six months of sales of tickets or shares to the public, the Director shall engage an independent firm experienced in demographic analysis to conduct a special study which shall ascertain the demographic characteristics of the players of each Lottery Game, including but not limited to their income, age, sex, education, and frequency of participation. This report shall be presented to the Commission, the Governor, the State Controller, the State Treasurer, and the Legislature. Similar studies shall be conducted after the first such study from time to time as determined by the Director.

§ 1031 Independent Study of Effectiveness of Lottery Communications

After the first full year of sales of tickets or shares to the public, the Director shall engage an independent firm experienced in the analysis of advertising, promotion, public relations, and incentives, and other aspects of communications to conduct a special study of the effectiveness of such communications activities by the Lottery and make recommendations to the Commission on the future conduct and future rate of expenditure for such activities. This report shall be presented to the Commission, the Governor, the State Controller, the State Treasurer, and the Legislature. Until the presentation of such report and action by the Commission, the Lottery shall expend as close to 4% as practical of the projected sales of all tickets and shares for advertising, promotion, public relations, incentives, public disclosures of odds and numbers of winners in Games, and other aspects of communications. Similar studies shall be conducted from time to time after the first such study as determined by the Director.

§ 1032 Independent Audit of Lottery Security

After the first 9 months of sales of tickets or shares to the public, the Commission shall engage an independent firm experienced in security procedures, including but not limited to computer security and systems security, to conduct a comprehensive study and evaluation of all aspects of security in the operation of the Lottery. Such study shall include, but not be limited to, personnel security; Lottery Game Retailer security; Lottery Contractor security; security of manufacturing operations of Lottery Contractors; security against ticket counterfeiting and alteration and other means of fraudulently winning; security of drawings among entries or finalists; computer security; data communications security; database security; systems security; Lottery premises and warehouse security; security in distribution; security involving validation and payment procedures, security involving unclaimed prizes; security aspects applicable to each particular Lottery Game; security of drawings in Games where winners are determined by drawings of numbers; the completeness of security against locating winners in Lottery Games with pre-printed winners by persons involved in their production, storage, distribution, administration, or sales; and any other aspects of security applicable to any particular Lottery Game and to the Lottery and its operations.

The portion of the security audit report containing the overall evaluation of the Lottery in terms of each aspect of security shall be presented to the Commission, the Governor, the State Controller, the State Treasurer, and the Legislature. Notwithstanding other provisions of State Law, the portion of the security audit report containing specific recommendations shall be confidential and shall be presented only to the Commission and the Governor. Similar audits of security shall be conducted biannually thereafter.

ARTICLE 4

OPERATION OF LOTTERY

§ 1033 Initiation and Operation of the Lottery

The Commission shall initiate operation of the State Lottery on a continuous basis at the earliest feasible and practical time. Public sales of tickets or shares shall begin no later than 135 days after the effective date of this Chapter. The Lottery shall be initiated and shall continue to be operated so as to produce the maximum amount of net revenues to benefit the public purpose described in this Chapter consonnant with the public good. Other State government departments, boards, commissions, agencies, and their officers shall cooperate with the Lottery Commission so as to aid the Lottery Commission in fulfilling these objectives.

§ 1034 Types of Lottery Games

Upon recommendation of the Director, the Commission shall promulgate rules and regulations specifying the types of Lottery Games to be conducted by the Lottery, provided:

(a) No Lottery Game may use the theme of bingo, dog racing, or horse racing.

(b) In Lottery Games utilizing tickets, each ticket in such Games shall bear a unique number distinguishing it from every other ticket in such Lottery Game.

(c) No name of an elected official shall appear on the tickets of any Lottery Game.

(d) In games utilizing electronic computer terminals or other devices, no coins or currency shall be dispensed to players from such electronic computer terminals or devices.

(e) It is the intent of this Chapter that the Commission may authorize the use of any type of Lottery Game that has been conducted by any state government operated lottery in the United States or any other type of Lottery Game that will achieve the revenue objectives of the Lottery consonnant with the public good.

§ 1035 Number and Value of Prizes

Upon recommendation of the Director, the Commission shall promulgate rules and regulations which specify the number and value of prizes for winning tickets or shares in each Lottery Game including, without limitation, cash prizes, merchandise prizes, prizes consisting of deferred payments or annuities, and prizes of tickets or shares in the same Lottery Game or other Lottery Games conducted by the Lottery, provided:

(a) In Lottery Games utilizing tickets with pre-printed winners, the overall estimated odds of winning some prize or some cash prize as appropriate for such Lottery Game shall be printed on each ticket.

(b) A detailed tabulation of the estimated number of prizes of each particular prize denomination that are expected to be awarded in each Lottery Game, or the estimated odds of winning such prizes, shall be available at the offices of the Lottery at the time such Lottery Game is offered for sale to the public.

§ 1036 Method for Determining Winners

Upon recommendation of the Director, the Commission shall promulgate rules and regulations which specify the method for determining winners in each Lottery Game, provided:

(a) No Lottery Game shall be based on the results of a horse race or dog race.

(b) If a Lottery Game utilizes a drawing of winning numbers, a drawing among entries, or a drawing among finalists, such drawings shall always be open to the public; such drawings shall be witnessed by an independent certified public accountant; any equipment used in such drawings must be inspected by the independent certified public accountant and an employee of the Lottery both before and after such drawings; and such drawings and such inspections shall be recorded on both video and audio tape.

(c) It is the intent of this Chapter that the Commission may authorize the use of any of a variety of existing or future methods or technologies in determining winners.

§ 1037 Sale Price of Tickets and Shares

Upon recommendation of the Director, the Commission shall promulgate rules and regulations specifying the retail sales price for each ticket or share for each Lottery Game, provided:

(a) No ticket or share shall be sold for more than the retail sales price established by the Commission.

(b) The retail price of each ticket or share in any Lottery Game conducted by the Lottery shall be at least fifty cents, except to the extent of any discounts authorized by the Commission.

§ 1038 Validation and Payment of Prizes

Upon recommendation of the Director, the Commission shall promulgate rules and regulations to establish a system of verifying the validity of tickets or shares claimed to win prizes and to effect payment of such prizes, provided:

(a) For the convenience of the public, Lottery Game Retailers may be authorized by the Commission to pay winners of up to $600 after performing validation procedures on their premises appropriate to the Lottery Game involved.

(b) No prize shall be paid to any person under the age of 18.

(c) No prize may be paid arising from claimed tickets or shares that are stolen, counterfeit, altered, fraudulent, unissued, produced or issued in error, unreadable, not received or not recorded by the Lottery by applicable deadlines, lacking in captions that confirm and agree with the lottery play symbols as appropriate to the Lottery Game involved, or not in compliance with such additional specific rules and regulations and public or confidential validation and security tests of the Lottery appropriate to the particular Lottery Game involved.

(d) No particular prize in any Lottery Game may be paid more than once, and in the event of a binding determination that more than one claimant is entitled to a particular prize, the sole remedy of such claimants is the award to each of them of an equal share in the prize.

(e) The Commission may specify that winners of $25 or less shall claim such prizes from either the same Lottery Game Retailer who sold the winning ticket or share or from the Lottery itself and that the Lottery Game Retailer who sold such winning ticket or share be responsible for paying that prize.

(f) Holders of tickets or shares shall have the right to claim prizes for 180 days after the drawing or the end of the Lottery Game or play in which the prize was won. The Commission may define shorter time periods for eligibility for entry into drawings involving entries or finalists. If a valid claim is not made for a prize payable directly by the Lottery Commission within the applicable period, the unclaimed prize money will revert to the benefit of the public purpose as described in this Chapter.

(g) After the expiration of the claim period for prizes for each Lottery Game, the Commission shall make available a detailed tabulation of the total number of tickets or shares actually sold in the Game and the total number of prizes of each prize denomination that were actually claimed and paid directly by the Lottery Commission.

(h) The right of any person to a prize shall not be assignable, except that payment of any prize may be paid to the estate of a deceased prize winner or to a person designated pursuant to an appropriate judicial order. The Director, Commission, the Lottery, and State shall be discharged of all liability upon payment of a prize.

(i) No ticket or share in a Lottery Game shall be purchased by, and no prize shall be paid to, a member of the Commission, the Lottery Director, an Assistant Lottery Director, or employee of the Lottery or to any spouse, child, brother, sister, or parent of such person.

§ 1039 Applicability of Lottery Rules, Regulations and Winner Validation Procedures

It is the policy of the State that all prizes contemplated in each Lottery Game by its prize structure for a given level of sales be paid to the players of such Lottery Game; and conversely, in order to preserve the fiscal integrity of the Lottery and to protect public funds, it is the policy of the State that no prizes be paid which are invalid and not contemplated by the prize structure of the Lottery Game involved. Accordingly, by purchasing a ticket or share in a Lottery Game, a player agrees to abide by, and be bound by, the Lottery's Rules and Regulations and by Lottery Game rules developed by the Lottery to apply to any particular Lottery Game involved (an abbreviated form of which may appear on tickets in Lottery Games utilizing tickets). In particular, and without limitation, a Player acknowledges that the determination of whether the player is a valid winner is subject to winner validation procedures and confidential validation and security tests established by the Lottery for the particular Lottery Game involved.

§ 1040 Distribution of Tickets and Shares

Upon recommendation of the Director, the Commission shall promulgate rules and regulations specifying the manner of distribution, dissemination, or sale of Lottery tickets or shares to Lottery Game Retailers or directly to the public, and the incentives, if any, for Lottery employees, if any, engaged in such activities.

(a) In Lottery Games utilizing electronic computer terminals or devices, the Lottery may employ or engage persons with experience in the repair, maintenance, or operation of comparable equipment.

(b) The Lottery shall assure security against locating winners in Lottery Games with pre-printed winners by persons involved in their production, storage, distribution, administration, or sale.

ARTICLE 5

LOTTERY GAME RETAILERS

§ 1041 Contracting with Lottery Game Retailers

The Commission shall promulgate rules and regulations specifying the terms and conditions for contracting with Lottery Game Retailers so as to provide adequate and convenient availability of tickets or shares to prospective buyers of each Lottery Game as appropriate for each such game. The foregoing shall not preclude the Lottery from selling tickets or shares directly to the public.

§ 1042 Selection of Lottery Game Retailers

The Director shall, pursuant to this Chapter and the rules and regulations of the Commission, select as Lottery Game Retailers such persons as deemed best to serve the public convenience and promote the sale of tickets or shares. No natural person under the age of 18 shall be a Lottery Game Retailer. In the selection of a Lottery Game Retailer, the Director shall consider factors such as financial responsibility, accessibility of the place of business or activity to the public, security of the premises, integrity, reputation, the sufficiency of existing Lottery Game Retailers for any particular Lottery Game to serve the public convenience, and the projected volume of sales for the Lottery Game involved.

Prior to execution of any contract with a Lottery Game Retailer, the Lottery Game Retailer shall disclose to the Lottery the Lottery Game Retailer's name and address and the names and addresses of the following:

(i) If the Lottery Game Retailer is a corporation, the officers, directors, and each stockholder in such corporation; except that, in the case of stockholders of publicly held equity securities of a publicly traded corporation, only the names and addresses of those known to the corporation to beneficially own five percent or more of such securities need be disclosed;

(ii) If the Lottery Game Retailer is a trust, the trustee and all persons entitled to receive income or benefit from the trust;

(iii) If the Lottery Game Retailer is an association, the members, officers, and directors;

(iv) If the Lottery Game Retailer is a subsidiary, the officers, directors, and each stockholder of the parent corporation thereof; except that, in the case of stockholders of publicly held equity securities of a publicly traded corporation, only the names and addresses of those known to the corporation to own beneficially five percent or more of such securities need be disclosed;

(v) If the Lottery Game Retailer is a partnership or joint venture, all of the general partners, limited partners, or joint venturers;

(vi) If the parent company, general partner, limited partner, or joint venturer of any Lottery Game Retailer is itself a corporation, trust, association, subsidiary, partnership, or joint venture, then all of the information required herein shall be disclosed for such other entity as if it were itself a Lottery Game Retailer to the end that full disclosure of ultimate ownership be achieved.

> (vii) If any member of the immediate family of any Lottery Game Retailer is involved in the Lottery Game Retailer's business in any capacity, then all of the information required herein, then be disclosed for such immediate family member as if such immediate family member were a Lottery Game Retailer.

No contract with any Lottery Game Retailer shall be entered into if any natural person whose name is required to be disclosed above has been convicted of a felony or gambling-related offense, or if any person other than a natural person whose name is required to be disclosed above has been convicted of a felony or gambling-related offense in the past 10 years.

No person shall be a Lottery Game Retailer who is engaged exclusively in the business of selling Lottery tickets or shares. A person lawfully engaged in non-governmental business on state property or an owner or lessee of premises which lawfully sells alcoholic beverages may be selected as a Lottery Game Retailer. A civic or fraternal organization may be selected as a Lottery Game Retailer. Political subdivisions or their agencies or departments may be selected as a Lottery Game Retailer for sales from their premises. The Director may contract with Lottery Game Retailers on a permanent, seasonal or temporary basis. The Lottery may require payment by each Lottery Game Retailer to the Lottery of an initial fee or an annual fee or both to maintain the contract to be a Lottery Game Retailer.

§ 1043 Non-Assignability

The authority to act as a Lottery Game Retailer shall not be assignable or transferable.

§ 1044 Termination of Lottery Game Retailer

The Director may terminate a contract with a Lottery Game Contractor for such bases of termination as shall be included in such contract, which bases shall include, but not be limited to, the knowing sale of tickets or shares to any person under the age of 18.

§ 1045 Compensation for Lottery Game Retailers

Upon recommendation of the Director, the Commission shall determine the compensation to be paid to Lottery Game Retailers for their sales of lottery tickets or shares. Until the Commission shall otherwise determine, the compensation paid to Lottery Game Retailers shall be 5% of the retail price of the tickets or shares plus an incentive bonus of 1% based on attainment of sales volume or other objectives specified by the Director for each Lottery Game. In cases of a Lottery Game Retailer whose rental payments for premises are contractually computed, in whole or in part, on the basis of a percentage of retail sales, and where such computation of retail sales is not explicitly defined to include sales of tickets or shares in a state-operated lottery, the compensation received by the Lottery Game Retailer from the Lottery shall be deemed to be the amount of the retail sale for the purposes of such contractual computation.

§ 1046 Sales to Persons Under the Age of 18

No tickets or shares in Lottery Games shall be sold to natural persons under the age of 18. In the case of Lottery tickets or shares sold by Lottery Game Retailers or their employees, such persons shall establish safeguards to help assure that such sales are not made to natural persons under the age of 18. In the case of sales of tickets or shares sold by vending machines or other devices, the Commission shall establish safeguards to help assure that such vending machines or devices are not operated by natural persons under the age of 18.

§ 1047 Display of Certificate of Authority

No Lottery tickets or shares shall be sold by a Lottery Game Retailer unless the Retailer has on display on the premises a certificate of authority signed by the Director to sell Lottery tickets or shares.

§ 1048 Bonding

The Director may require an appropriate bond from any Lottery Game Retailer or may purchase blanket bonds covering the activities of selected Lottery Game Retailers.

§ 1049 Lottery Game Retailer Accounting

The Director shall establish procedures which shall be utilized by Lottery Game Retailers to account for all tickets or shares that are sold to the public by each Lottery Game Retailer and to account for all funds received from the public by each Lottery Game Retailer for the tickets or shares.

§ 1050 Lottery Game Retailer Payments

No payment by Lottery Game Retailers to the Lottery for tickets or shares shall be in cash. All such payments shall be in the form of a check, bank draft, electronic fund transfer, or other recorded financial instrument as determined by the Director.

ARTICLE 6

LOTTERY VENDORS AND LOTTERY CONTRACTORS

§ 1051 Procurements

Notwithstanding other provisions of law, the Director may purchase or lease such goods or services as are necessary for effectuating the purposes of this Chapter. The Lottery may not contract with any private party or non-governmental entity for the operation and administration of the State Lottery established by this Chapter; however, the foregoing shall not preclude procurements which integrate functions such as Lottery Game design, supply of goods and services, and advertising. In all procurement decisions, the Director and Commission shall take into account the particularly sensitive nature of the State Lottery and shall act to promote and ensure security, honesty, fairness, and integrity in the operation and administration of the Lottery and the objective of raising net revenues for the benefit of the public purpose described in this Chapter.

§ 1052 Lottery Vendor Disclosures for Major Procurements

In order to allow an evaluation by the Lottery of the competence, integrity, background, character and nature of the true ownership and control of Lottery Vendors, any person who submits a bid, proposal or offer as part of a Major Procurement shall first disclose at the time of submitting such bid, proposal, or offer to the Lottery, all of the following items:

(a) A disclosure of the Lottery Vendor's name and address and, as applicable, the name and address of the following:

> (i) If the Vendor is a corporation, the officers, directors, and each stockholder in such corporation; except that, in the case of stockholders of publicly held equity securities of a publicly traded corporation, only the names and addresses of those known to the corporation to own beneficially five percent or more of such securities need be disclosed;
>
> (ii) If the Vendor is a trust, the trustee and all persons entitled to receive income or benefit from the trust;
>
> (iii) If the Vendor is an association, the members, officers, and directors;
>
> (iv) If the Vendor is a subsidiary, the officers, directors, and each stockholder of the parent corporation thereof; except that, in the case of stockholders of publicly held equity securities of a publicly traded corporation, only the names and addresses of those known to the corporation to own beneficially five percent or more of such securities need be disclosed;
>
> (v) If the Vendor is a partnership or joint venture, all of the general partners, limited partners, or joint venturers;

(vi) If the parent company, general partner, limited partner, or joint venturer of any Vendor is itself a corporation, trust, association, subsidiary, partnership, or joint venture, then all of the information required herein shall be disclosed for such other entity as if it were itself a Vendor to the end that full disclosure of ultimate ownership be achieved.

(vii) If any member of the immediate family of any Vendor is involved in the Vendor's business in any capacity, then all of the information required herein shall be disclosed for such immediate family member as if he were himself a Vendor.

(viii) If the Vendor subcontracts any substantial portion of the work to be performed to a subcontractor, then all of the information required herein shall be disclosed for such subcontractor as if it were itself a Vendor.

The persons or entities in (i) through (viii) above, along with the Vendor itself, shall hereinafter be referred to as "Control Persons."

(b) A disclosure of all the states and jurisdictions in which each Control Person does business, and the nature of that business for each such state or jurisdiction.

(c) A disclosure of all the states and jurisdictions in which each Control Person has contracts to supply gaming goods or services, including, but not limited to, lottery goods and services, and the nature of the goods or services involved for each such state or jurisdiction.

(d) A disclosure of all the states and jurisdictions in which each Control Person has applied for, has sought renewal of, has received, has been denied, has pending, or has had revoked a gaming license of any kind, and the disposition of such in each such state or jurisdiction. If any gaming license has been revoked or has not been renewed or any gaming license application has been either denied or is pending and has remained pending for more then 6 months, all of the facts and circumstances underlying this failure to receive such a license must be disclosed.

(e) A disclosure of the details of any conviction or judgment of a state or Federal court of each Control Person of any felony and any other criminal offense other than traffic violations.

(f) A disclosure of the details of any bankruptcy, insolvency, reorganization, or any pending litigation of each Control Person.

(g) A disclosure for each Control Person who is a natural person of his employment, residence, education, and military history since the age of 18, and any Federal, state or local elective position(s) ever held by such person.

(h) A disclosure consolidating all reportable information on all reportable contributions by each Control Person to any local, state, or federal political candidate or political committee in this State for the past 5 years that is reportable under any existing state or Federal law.

(i) A disclosure of the identity of any entity with which each Control Person has a joint venture or other contractual arrangement to supply any state or jurisdiction with gaming goods or services including, but not limited to lottery goods or services, including a disclosure with regard to such entity of all of the information requested under subparagraphs (a) through (h) hereof.

(j) A disclosure consisting of financial statements of the Lottery Vendor for the past 3 years.

(k) A disclosure consisting of the individual federal and individual state income tax returns for the past 3 years and a current individual financial statement for each Control Person who is a natural person, provided that the disclosures provided in this subsection shall be considered confidential and will be transmitted directly to the Assistant Director for Security and Attorney General of the State for their expeditious review in conjunction with the Director in accordance with the schedule of the pending procurement.

(l) A disclosure of the identity and nature of any interest known to the Vendor of any past or present Commissioner, Director, or Assistant Director of the State Lottery who, directly or indirectly, is an officer, director, agent, consultant, independent contractor, stockholder, debtholder, principal, employee, or has any direct or indirect Financial Interest in any Vendor or any of its Control Persons. For these purposes, Financial Interest shall mean ownership of any interest or involvement in any relationship from which, or as a result of which, a Person within the past 5 years has received, or is presently or in the future entitled to receive, more than a total of $1,000 over the 5 years, or its equivalent.

(m) A disclosure of the identity of the attorney, law firm, accountant, accounting firm, public relations firm, consultant, sales agent, or other Person in the State engaged by the Vendor at the time of the procurement involved or in the past one year.

(n) A disclosure of the identity of each attorney, law firm, accountant, accounting firm, public relations firm, consultant, sales agent, or other Person involved in aiding the Vendor's efforts to obtain the contract in the procurement involved.

(o) Such additional disclosures and information as the Director may determine to be appropriate for the procurement involved.

No contract for a Major Procurement with any Vendor who has not complied with the disclosure requirements described herein for each of its Control Persons shall be entered into or be enforceable. Any contract with any Lottery Contractor who does not comply with such requirements for periodically updating such disclosures for itself and each of its Control Persons during the tenure of such contract as may be specified in such contract may be terminated by the Commission.

No contract for a Major Procurement with any Lottery Vendor shall be entered into if any Control Person of that Lottery Vendor has been convicted of a felony.

This section shall be construed broadly and liberally to achieve the ends of full disclosure of all information necessary to allow for a full and complete evaluation by the Lottery of the competence, integrity, background, character, and nature of the true ownership and control of Lottery Vendors for Major Procurements.

§ 1053 Compliance with Applicable Laws

Each Lottery Contractor shall perform its contract consistent with the laws of this State, Federal law, and laws of the state or states in which such Lottery Contractor is performing or producing, in whole or in part, any of the goods or services contracted for hereunder. No contract with any Lottery Contractor who fails to comply with such laws shall be entered into or be enforceable.

§ 1054 Performance Bond

Each Lottery Contractor in a Major Procurement shall, at the time of executing the contract with the Commission, post a performance bond with the Commission, using a surety acceptable to the Commission, in an amount equal to the full amount estimated to be paid annually to the Lottery Contractor under the contract.

§ 1055 Contracts

Subject to the approval of the Commission, the Director may directly solicit proposals or enter into contracts for the purchase or lease of goods or services for effectuating the purposes of this Chapter. In awarding contracts in response to solicitations for proposals, the Director shall award such contracts to the responsible Vendor submitting the lowest and best proposal which maximizes the benefits to the State in relation to cost in the areas of security, competence, quality of product, experience, timely performance, and maximization of net revenues to benefit the public purpose described in this Chapter. All contract awards made by the Director shall be approved by the Commission.

ARTICLE 7

STATE LOTTERY FUND

§ 1056 State Lottery Fund

A special fund to be known as the "State Lottery Fund" is created within the State Treasury. The State Lottery Fund is continuously appropriated to the Commission for the purposes of operating the Commission and the State Lottery.

§ 1057 Income to the State Lottery Fund

The State Lottery Fund shall receive the following monies:

(a) all proceeds from the sale of Lottery tickets or shares,

(b) the temporary line of credit for initial start-up costs, and

(c) all other monies credited to the Lottery from any lottery-related source.

§ 1058 Types of Disbursements from the State Lottery Fund

Disbursements shall be made from the State Lottery Fund for any of the following purposes:

(a) the payment of prizes to the holders of valid winning Lottery tickets or shares,

(b) expenses of the Lottery,

(c) repayment of any funds advanced from the temporary line of credit for initial start-up costs and the interest on any such funds advanced, and

(d) transfer of funds from the State Lottery Fund to the benefit of the public purpose described in this Chapter.

§ 1059 Prize Payments

As nearly as practical, at least 50% of the total projected revenue (computed on a year-round basis for each Lottery Game) accruing from the sales of all Lottery tickets or shares from that Lottery Game shall be apportioned for payment of prizes for that Lottery Game.

§ 1060 Expenses of the Lottery

Expenses of the Lottery shall include all costs incurred in the operation and administration of the Lottery and all costs resulting from any contracts entered into for the purchase or lease of goods or services required by the Lottery, including but not limited to the compensation paid to Lottery Game Retailers; the costs of supplies, materials, tickets, independent audit services, independent studies, data transmission, advertising, promotion, incentives, public relations, communications, bonding for Lottery Game Retailers, printing, distribution of tickets and shares, reimbursing other governmental entities for services provided to the Lottery, and for any other goods and services necessary for effectuating the purposes of this Chapter. No more than 16% of the total annual revenues accruing from the sale of all Lottery tickets and shares from all Lottery Games shall be expended for the payment of the expenses of the Lottery.

§ 1061 Transfer of Net Revenues

The funds remaining in the State Lottery Fund after accrual of all revenues to the State Lottery Fund and after accrual of all obligations of the Lottery for prizes, expenses, and the repayment of funds advanced from the temporary line of credit for initial start-up costs and interest thereon shall be deemed to be the net revenues of the Lottery. The net revenues of the Lottery shall be transferred from the State Lottery Fund periodically to the benefit of the public purpose described in this Chapter.

§ 1062 Inter-governmental Reimbursements for Services

It is the intent of this Chapter that the Lottery shall be a self-supporting agency of state government. The Commission shall reimburse at a reasonable rate all other governmental entities for any and all services necessary to effectuate the purposes of this Chapter provided by such governmental entities to the State Lottery Commission.

§ 1063 State Controller Audits

The State Controller shall conduct quarterly and annual post-audits of all accounts and transactions of the Commission and such other special post-audits as the State Controller deems to be necessary. The Controller or his agents conducting an audit shall have access and authority to examine any and all records of the Commission, its distributing agencies (if any), Lottery Contractors, and Lottery Game Retailers.

§ 1064 Exemption from State Revenue and Expenditure Limitations

For purposes of any limitations on state government revenues or expenditures, revenues produced from the conduct of the State Lottery established by this Chapter shall not be part of "total state revenues" and the expenditure of the Lottery shall not be considered an "expense of state government."

ARTICLE 8

MISCELLANEOUS

§ 1065 Taxes

No State or local taxes shall be imposed upon the sale of Lottery tickets or shares of the State Lottery established by this Chapter or any prize awarded by the State Lottery established by this Chapter.

§ 1066 Preemption of Local Laws

It is the intent of this Chapter that all matters related to the operation of the State Lottery established by this Chapter be governed solely pursuant to this Chapter and be free from regulation or legislation of local governments, including a city or county.

§ 1067 Lawful Activity

Any other State or local law or regulation providing any penalty, disability, restriction, regulation, or prohibition for the manufacture, transportation, storage, distribution, advertising, possession, or sale of any Lottery tickets or shares or for the operation of any Lottery Game shall not apply to the tickets or shares of the State Lottery established by this Chapter.

§ 1068 Temporary Line Of Credit For Start-Up Costs

There is hereby established a temporary line of credit to be drawn from the State's General Fund to the State Lottery Fund created by this Chapter in the amount equal to seventy cents times the population of this State according to the most recent federal decennial census. This amount is continuously appropriated for carrying out the purposes of this Chapter. This temporary line of credit may be drawn upon by the State Lottery only during the first 12 months after the effective date of the Chapter and only for the purpose of financing the initial start-up of the Lottery. The Lottery may draw upon all or part of this temporary line of credit. Any funds advanced from the temporary line of credit shall be repaid to the State General Fund within one year of the advance of said funds. In addition, interest shall be paid at an annual simple interest rate of 10% on funds advanced from the temporary line of credit commencing on the day funds are advanced and until the funds are repaid.

§ 1069 Severability

If any provision of this Chapter or the application thereof to any person or circumstance is held invalid, such invalidity shall not affect other provisions or applications of the Chapter which can be given effect without the invalid provision or application, and to this end the provisions of this Chapter are severable.

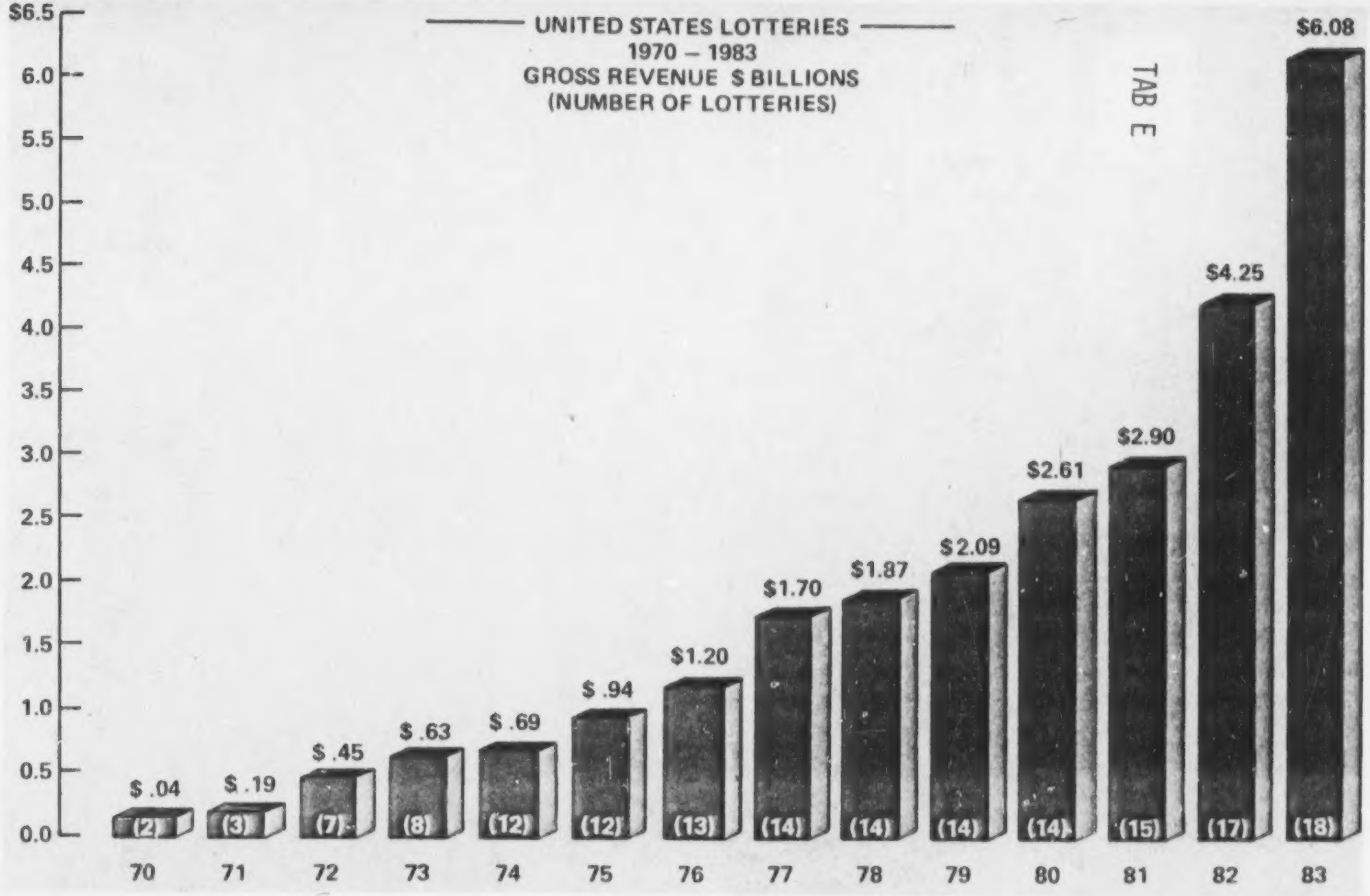
§ 1070 Government Ethics Requirements

The Lottery Commissioner, Lottery Director, and Assistant Directors shall comply with all state laws applicable to ethics in government, conflicts of interest, and financial disclosure.

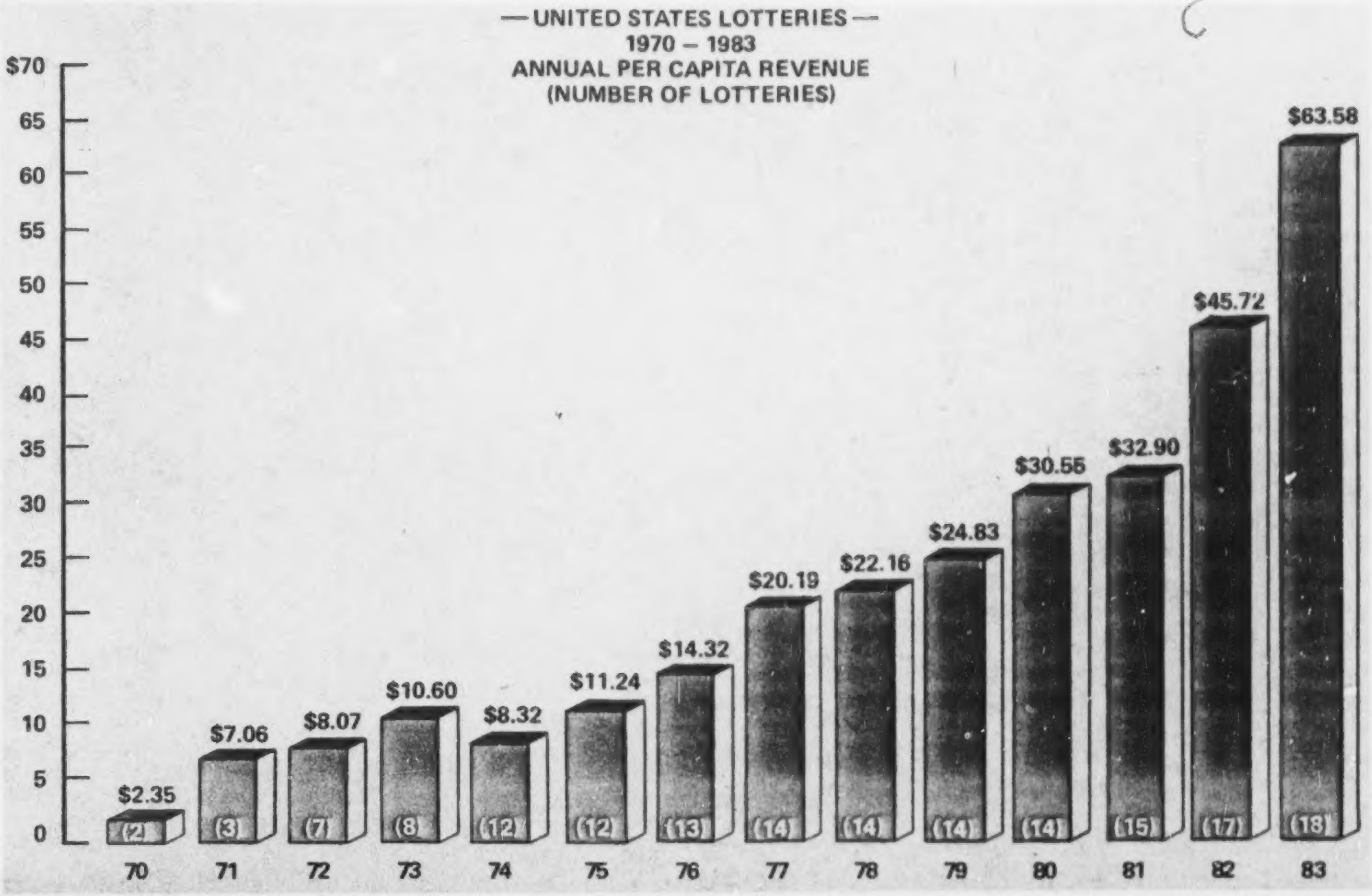
§ 1071 Effective Date of Chapter

This Chapter is a revenue raising measure whose immediate effect is required by the general welfare of the State and accordingly will take effect immediately.

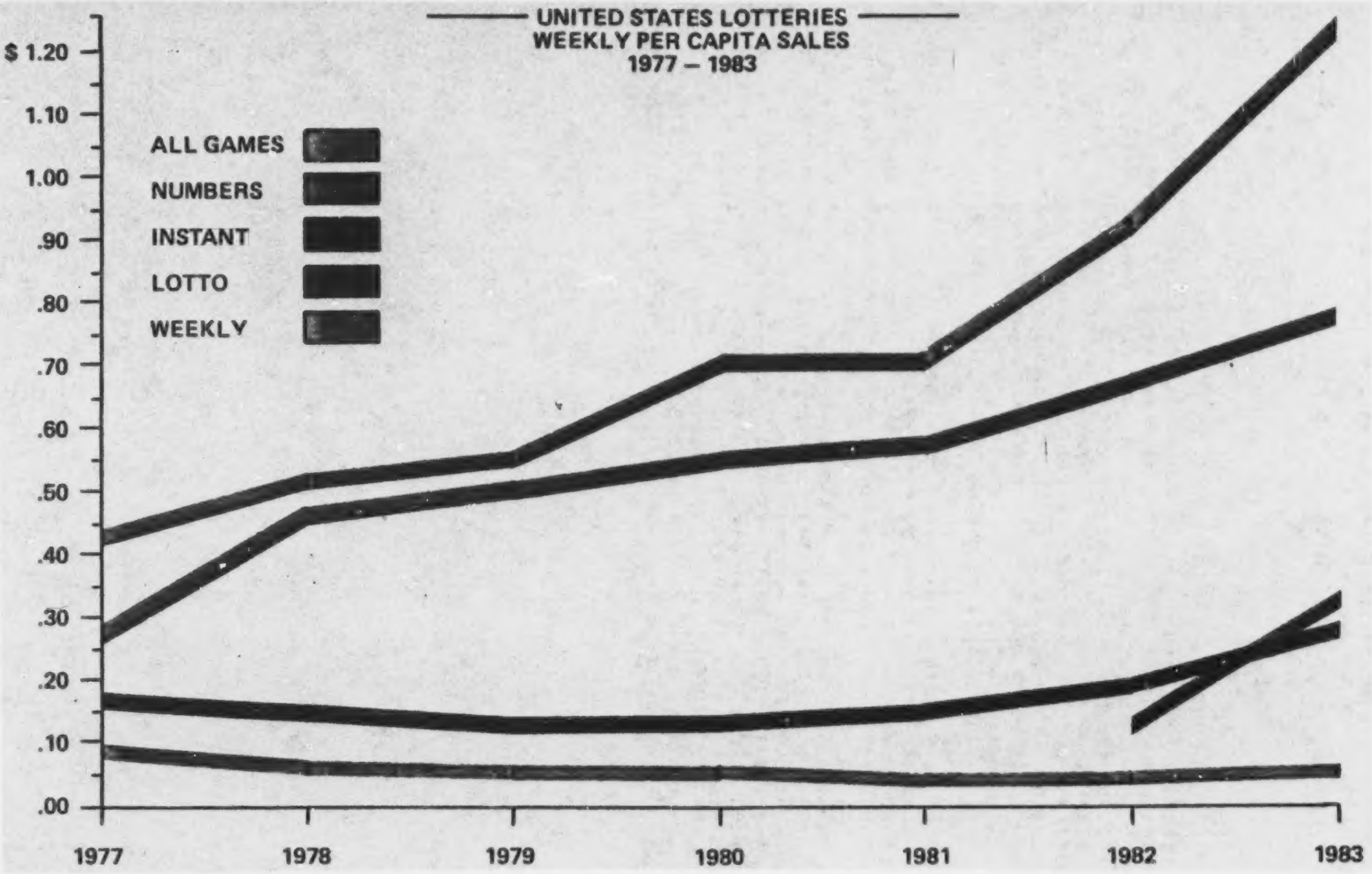
TAB E



UNITED STATES LOTTERIES
1970 – 1983
GROSS REVENUE $ BILLIONS
(NUMBER OF LOTTERIES)



—UNITED STATES LOTTERIES—
1970 – 1983
ANNUAL PER CAPITA REVENUE
(NUMBER OF LOTTERIES)



UNITED STATES LOTTERIES
WEEKLY PER CAPITA SALES
1977 – 1983

ECONOMIC BENEFITS FROM A STATE LOTTERY

Prepared by Robert L. Mote, Scientific Games, Inc., May 1984

Lotteries have been used for thousands of years as a means of raising government revenues. The first reported government lottery was instituted by Caesar Augustus to rebuild Rome. In 1612, King James authorized a lottery to help finance the "colonial settlement." The Congress of 1776 provided a National Lottery and individual lotteries were used to finance roads and other public projects and to help erect Harvard, Yale, Brown, Dartmouth and many other prestigious academic institutions. As Thomas Jefferson once said, "The lottery is a wonderful thing; it lays the taxation only on the willing."

Indeed many states have turned to state-operated lotteries as a means of raising revenue "painlessly." In 1980 alone, three new lotteries were authorized and total lottery revenues have shown a consistent and staggering growth. "Rapid advances in the technology of their business, vastly improved systems of marketing and management, and an ever-growing public acceptance of their games have resulted in record-setting growth for the lotteries." (Gaming Business Magazine, May 1982, p. 12.) Lottery sales for fiscal 1981, which totalled $3.1 billion, represented a 28% aggregate growth over fiscal 1980. (Gaming Business Magazine, February 1983, p. 53.) Sales in fiscal 1982 reached $4 billion, another 28% increase (id.), and it is predicted that sales for fiscal 1983 will near the $5 billion mark. (Chicago Tribune, February 6, 1983, quoting Public Gaming Institute.)

Although every state has differences, a well-precedented and proven-accurate way for a non-lottery state to project the revenue potential of a lottery is to use "averages." Of course, if a state lottery is mismanaged, it may fall short of the "average" and, conversely, if a state lottery learns from the management experience of established state lotteries and uses streamlined, efficient and effective management, it will obtain lottery revenues above the "average." Nonetheless, using averages has proven an accurate, albeit slightly conservative method of predicting revenues before the start-up of the recent lotteries in Arizona, the District of Columbia, Washington and Colorado.

The average per capita lottery expenditures during calendar year 1983 in those states which had full operations during that year was $63.58. (See following chart, Exhibit A, p. 1.) To determine what any particular state would gross in lottery revenues, one need merely multiply the average per capita expenditure times the state's population. (Exhibit A, p. 2.) Generally, and again as an average, 40% of the gross lottery revenues are returned to the state. Thus, to determine the net lottery revenues for a state, one need merely take 40% of the gross lottery revenues. In the case of Iowa, this would mean approximately $140 million in gross sales and $55.6 million in profit to the state.

1983 U.S. LOTTERY SALES

STATE	POPULATION (1980 CENSUS)	SALES
izona	2.7 million	$ 68.8 million
Colorado	2.9 million	$ 192.4 million
Connecticut	3.1 million	$ 202.5 million
Delaware	6.0 million	$ 32.0 million
District of Columbia	.6 million	$ 53.9 million
Illinois	11.4 million	$ 683.5 million
Maine	1.1 million	$ 14.6 million
Maryland	4.2 million	$ 481.1 million
Massachusetts	5.7 million	$ 364.7 million
Michigan*	9.3 million	$ 552.8 million
New Hampshire	.9 million	$ 14.3 million
New Jersey	7.4 million	$ 780.6 million
New York	17.6 million	$ 814.5 million
Ohio	10.8 million	$ 462.1 million
Pennsylvania	11.9 million	$ 1,094.7 million
Rhode Island**	.9 million	$ 43.7 million
Vermont	.5 million	$ 4.8 million
Washington	4.1 million	$ 223.4 million
TOTALS:	95.7 million	$ 6,084.4 million

AVERAGE PER CAPITA SPENDING: $\left\{ \frac{\$6,084.4 \text{ million in sales}}{95.7 \text{ million people}} \right. = \$63.58$

* Projected based on first 47 weeks of sales
** Fiscal 1983 sales

EXHIBIT A - PAGE 1

PROJECTED ANNUAL 1983 LOTTERY REVENUES

FOR NON-LOTTERY STATES

State	Population* (000's)	Projected Gross Lottery Revenues @ $63.58/Capita (Millions)	Projected Net Lottery Revenues @ 40%
Alabama	3,890	$ 247.3	$ 98.9
Alaska	400	$ 25.4	$ 10.2
Arkansas	2,286	$ 145.3	$ 58.1
California	23,669	$1,504.9	$ 601.9
Florida	9,740	$ 619.3	$ 247.7
Georgia	5,464	$ 347.4	$ 139.0
Hawaii	965	$ 61.4	$ 24.5
Idaho	944	$ 60.0	$ 24.0
Indiana	5,490	$ 349.1	$ 139.6
Iowa	2,913	$ 185.2	$ 74.1
Kansas	2,363	$ 150.2	$ 60.1
Kentucky	3,661	$ 232.8	$ 93.1
Louisiana	4,204	$ 267.3	$ 106.9
Minnesota	4,077	$ 259.2	$ 103.7
Mississippi	2,521	$ 160.3	$ 64.1
Missouri	4,917	$ 312.6	$ 125.0
Montana	787	$ 50.0	$ 20.0
Nebraska	1,570	$ 99.8	$ 39.9
Nevada	799	$ 50.8	$ 20.3
New Mexico	1,300	$ 82.7	$ 33.1
North Carolina	5,874	$ 373.5	$ 149.4
North Dakota	653	$ 41.5	$ 16.6
Oklahoma	3,025	$ 192.3	$ 77.0
Oregon	2,633	$ 167.4	$ 67.0
South Carolina	3,119	$ 198.3	$ 79.3
South Dakota	690	$ 43.9	$ 17.5
Tennessee	4,591	$ 291.9	$ 116.8
Texas	14,228	$ 904.6	$ 361.8
Utah	1,461	$ 92.9	$ 37.2
Virginia	5,346	$ 339.9	$ 136.0
West Virginia	1,950	$ 124.0	$ 50.0
Wisconsin	4,705	$ 299.1	$ 120.0
Wyoming	471	$ 29.9	$ 12.0
	130,706	$8,310.2	$3,324.1

*According to 1980 census figures

Profit Projections Based On Comparable States:

An alternative method of projecting lottery revenues is to base the projections on the experience of a comparable lottery state. As an example, the following is a profit projection for the State of Iowa based on comparable states.

Colorado Comparison

Colorado is similar to Iowa and a valid state for purposes of comparison. The 1980 census indicates:

- Colorado has a population of 2.89 million
  Iowa has a population of 2.91 million
- Colorado has an average household income of $21,500
  Iowa has an average household income of $19,600
- The age of people in Colorado averages 32.2
  The age of people in Iowa averages 34.8
- 78% of the people of Colorado have 12 or more years of education
  72% of the people of Iowa have 12 or more years of education
- 23.5% of people of Colorado are single, 58.9% are married, and 10.8% have "other family" types
  23.8% of people in Iowa are single, 63.4% are married, and 9.4% have "other family" types

The Book Of The States 1982-1983 indicates:

- Colorado's largest city (Denver) has a population of 491,396 and Iowa's (Des Moines) has 191,003; Colorado has 33 cities of over 10,000 population while Iowa has 29; this may make Colorado's administrative costs slightly lower.
- However, Colorado has a density of 27.8 people per square mile, while Iowa has a density of 52.1, thus making Iowa's administrative costs slightly lower, offsetting the effect of the large city population discussed immediately above.

Colorado's lottery commenced sales on January 24, 1983 and sold $100 million dollars worth of tickets in 101 days. Prior to the start of the first game, Colorado conservatively estimated it would have sales of $60 million in its first year. By mid-February, that estimate was increased to $140 million. By May, the estimates are now $250-$300 million in sales for its first year. Of this amount, at least 35% (and more likely more) will go to the state as net profits. (Unlike Iowa, Colorado pays 50% of each dollar as prizes; Iowa would pay 45%; thus the Iowa profits would be higher than Colorado.)

In other words, if Iowa were as successful as Colorado - a state almost identical in all relevant aspects to Iowa - Iowa could realize net profits to the state in the first full year of operations of $100 - $200 million!

Arizona Comparison

Arizona is also somewhat similar to Iowa (though not as similar as Colorado), and a valid state for purposes of comparison. In fact, where there are dissimilarities, those dissimilarities would indicate that Iowa should obtain greater lottery revenues than Arizona. For example, Arizona has approximately 2.7 million people and Iowa has approximately 2.9 million. Arizona has a population density of 24 people per square mile while Iowa has a population density of 52 people per square mile. Arizona has 17 cities with a population in excess of 10,000 and Iowa has 29 cities with a population in excess of 10,000 (Derived from The Book of the States 1982-1983.) Finally, Arizona and Iowa have similar demographics of their population. Arizona sold its first lottery ticket on the first day of its 1981-1982 fiscal year (July 1, 1981) and grossed $115 million in lottery revenues during its 1981-1982 fiscal year (making its per capita expenditure approximately $42.00 - predictably higher than the 1981-1982 fiscal year average of all lottery states since it was the first year for the lottery). In fiscal year 1981-1982, Arizona's net lottery revenue for the state was approximately $44 million (making its net yield of 39% comparable to the 40% average of all lottery states). In other words, Arizona, with a smaller population and less density than Iowa, earned $44 million in fiscal year 1981-1982 and, using Arizona as a comparison, one could easily support the estimate of projected Iowa net lottery revenues in the $50 million range.

As another example, the following is a profit projection for the State of Louisiana based on comparable states. One state which might be considered comparable to Louisiana is Maryland. Maryland has operated a state lottery since 1974 and is considered one of the more efficiently managed and successful lotteries.

- Louisiana has a population of approximately 4.204 million and Maryland has a population of approximately 4.216 million people. However, visitors to New Orleans and Louisiana in general (estimated at approximately 6 million per year) would increase Louisiana's efective "market" as would the lack of lotteries in adjacent states.
- North Carolina has a population of approximately 5.87 million and Maryland has a population of approximately 4.216 million people.
- The largest city in Maryland (Baltimore) has a population of 786,775 and the largest city in North Carolina (Charlotte) has a population of 314,447. However, North Carolina has 43 cities with a population over 10,000 while Maryland has only 18. (*The Book Of the States: 1982-83*, pp. 697, 707-8.)
- While Maryland is more densely populated, making its administrative costs slightly lower, the larger effective "market" in North Carolina would offset any differences in lottery profits due to this lower administrative cost.

In fiscal 1982, Maryland had $457.4 million in gross lottery revenues and returned approximately $200 million to the state's general fund. (See following chart). Once Louisiana's lottery "matures," it has the potential of matching the success of Maryland.

MARYLAND STATE LOTTERY

REVENUE HISTORY FOR FISCAL YEARS '74 - '82

FISCAL YEAR 1982
DISTRIBUTION OF LOTTERY REVENUES

WHEN SOMEONE BUYS A LOTTERY TICKET HERE'S WHERE THE MONEY GOES

46.1% — **RETURNED TO LOTTERY PLAYERS IN PRIZES**
THE LARGES SHARE OF LOTTERY PROCEEDS IS RETURNED IN THE FORM OF PRIZES TO THE PEOPLE WHO WIN PLAYING THE GAMES.

43.5% — **SUPPORTS STATE SERVICES**
AS REQUIRED BY STATE LAW, ALL LOTTERY REVENUE IS CONTRIBUTED TO THE GENERAL FUND TO HELP PAY FOR STATE SERVICES.

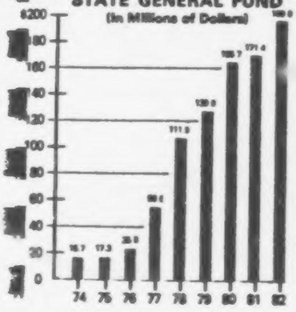
5.1% — **BENEFITS BUSINESS COMMUNITY**
COMMISSIONS ARE PAID TO ALL TICKET SELLERS. THERE ARE OVER 1080 NUMBERS GAME TICKET SELLERS AND OVER 1000 WEEKLY GAME TICKET SELLERS.

3.2% — **OPERATIONAL EXPENSES**
INCLUDES ALL ADMINISTRATIVE EXPENSES, INCLUDING BANK FEES, ADVERTISING AND OTHER CONTRACTUAL SERVICES.

2.1% — A CAPITAL EXPENDITURE OF $6,281,000 TO PURCHASE THE NUMBERS GAME SYSTEM. THIS PURCHASE WILL SAVE MARYLAND'S TAXPAYERS $10,000,000 OVER THE NEXT 5 YEARS.

DEPOSITS TO THE STATE GENERAL FUND

(In Millions of Dollars)

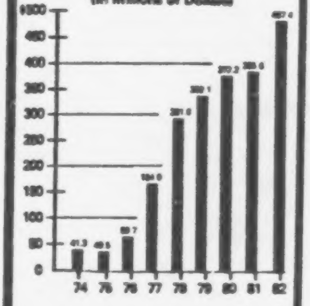


FISCAL YEARS

CUMULATIVE TOTAL: $837,862,088.

GROSS REVENUE

(In Millions of Dollars)

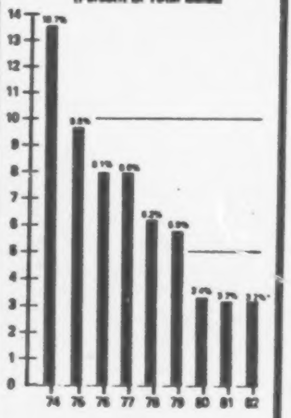


FISCAL YEARS

CUMULATIVE TOTAL: $2,136,253,628.

OPERATING EXPENSES

(Percent of Total Sales)



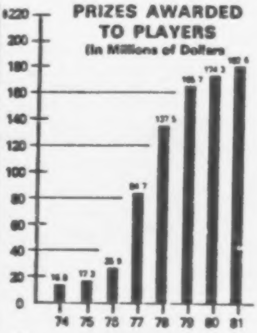
FISCAL YEARS

*CUMULATIVE TOTAL: $104,840,862.

*Does not Include The Purchase of The Numbers Game System

PRIZES AWARDED TO PLAYERS

(In Millions of Dollars)

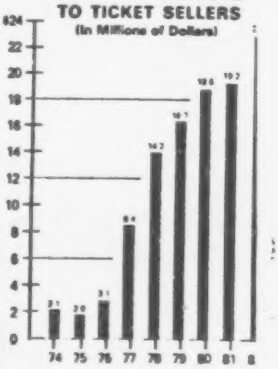


FISCAL YEARS

CUMULATIVE TOTAL: $1,015,873,378.

COMMISSIONS PAID TO TICKET SELLERS

(In Millions of Dollars)



FISCAL YEARS

CUMULATIVE TOTAL: $107,506,010.

What other economic benefits are there from a State Lottery?

Besides the obvious revenue raising effects of a lottery, there are other economic benefits to be derived from a State lottery:

> Citizens will receive 45% of gross sales in prizes. Realizing that winners are fewer than the prizes are larger, large prizes can create an unbudgeted excess of discretionary income for people which could be spent in the State with the attendant economic multiplier effects for the State.
>
> Advertisers will receive 2%-4% of gross sales to promote the lottery. (See the following Exhibit B for advertising dollars spent in Arizona, Washington and Colorado.) In addition, the lottery may choose to use such things as promotions involving coupons in newspapers which may increase a newspaper's circulation.
>
> Retailers will receive approximately 5% as ticket sales commissions. (See the following Exhibit B for commissions earned by the larger sales agents in Arizona, Washington and Colorado.) In addition, the availability of lottery tickets often increases a retailer's "traffic" and, hence, his gross sales.
>
> The lottery creates jobs. Besides additional jobs that may be created as an ancillary effect of money spent on advertising and the activities of retailers, the lottery will require between 50-150 full time employees in areas of administration, security, data processing, field reps, etc.

The point is that a State lottery is not just a revenue raiser. It is a business which has economic benefits for many people and small businesses in the State.

INCOME DERIVED BY ADVERTISERS AND RETAILERS

I. Washington State: Washington started its first lottery game in mid-November, 1982. It will end its third game on May 27, 1983. Washington has a population of 4.2 million people and during this 5½ month period, it has grossed $155 million dollars. Besides the money paid to its independent advertising agency and other media forms, it has paid the following amounts to television, radio and newspapers.

Game 1:	Television	$196,000
	Radio	$183,000
	Newspapers	$228,000
Game 2:	Television	$242,000
	Radio	$149,000
	Newspapers	$258,000
Game 3:	Television	$232,000
	Radio	$204,000
	Newspapers	$153,000

Retailers earned approximately $7,750,000 in ticket sales commissions for these first three games during this 5½ month period. Some of the largest commissions were earned by the following "chains" (approximate figures):

Safeway	$940,000
Albertson's	$417,000
Fred Meyer's	$331,000
Pay 'n Save	$199,000
Quick Shop	$172,000
State Liquor Stores	$789,000*

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* Product sales also reportedly increased 10-20% due to lottery ticket sales.

II. Colorado: Colorado started its lottery January 24, 1983. That game of approximately 26 million tickets ended 40 days later on March 6, 1983. Colorado has a population of approximately 2.9 million. Data is only available for this first game but projections can be based on the fact that Colorado is now considering running games totalling 300 million tickets in its first full year of operation, which means gross sales of $300 million. The Lottery budgets 3% for advertising and promotion. Of that, ½% is for promotion and 2½% is for television, radio and newspapers. Among these three media, the advertising dollar is budgeted to be spent as follows:

Television	65%
Newspapers	20%
Radio	15%

Based on sales of $300 million in the first full year, the 2½% spent in these media equals $9 million. Based on the above allocations, it is estimated that the following amounts will be spent in the first year in each of these three media:

Television	$5,850,000
Newspapers	$1,800,000
Radio	$1,350,000

The largest sales commission during the first game were earned by the following "chains" (approximate figures):

7-11 Stores	$637,227
Safeway	$421,678
King Super	$372,300
Albertson's	$104,988
Loaf & Jug	$ 88,980
U/Tote/M	$ 56,100
Vickers	$ 55,860
Quik-Way	$ 54,240
City Markets	$ 53,760
Venta	$ 45,780
Royal Petroleum	$ 42,953

III. Arizona: Arizona commenced sales July 1, 1981 and in its first fiscal year (7/1/81-6/30/82), it grossed approximately $115 million. No breakdowns were available but its annual report indicates it spent during that fiscal year $4,432,372 for advertising and paid sales commissions of $6,127,019 (70% of which went to 25 large "chains").

WHERE EACH LOTTERY DOLLAR GOES: FIRST YEAR SALES*

PRIZES	:	47½¢
GENERAL FUND	:	41¢
AGENT COMMISSIONS	:	5¢
TICKET COST	:	3¢
ADVERTISING	:	1½¢
OPERATING COSTS	:	2¢
TOTAL	:	$1.00

---

* Based on actual first year expenses of Washington State Lottery (see attachment). Washington State has a population of approximately 4.1 million people.

WASHINGTON STATE LOTTERY

FIRST FISCAL YEAR INCOME STATEMENT

(FOR PERIOD ENDING JUNE 30, 1983)*

		TOTAL	AS PERCENTAGE
NET TICKET SALES**		$200,117,208	100%
TOTAL PRIZES:		$ 95,028,490	
PRIZE PAYMENTS:	$92,952,212		
PRIZE FUND:	$ 2,076,278		
GENERAL FUND		$ 81,892,463	40.9%
SALES COMMISSIONS		$ 10,005,860	5.0%
TICKET COST		$ 5,827,636	2.9%
ADVERTISING COST		$ 3,050,434	1.5%
OTHER OPERATING EXPENSES		$ 4,312,325	2.1%

---

* Lottery signed into law on July 16, 1982;
Staff organization commenced by August 1, 1982;
First tickets on sale on November 15, 1982.

** Based on 7-1/2 months of sale.

WASHINGTON STATE LOTTERY
INCOME STATEMENT

For Period Ending June 30, 1983
(unaudited)

	Lottery Revolving Fund 576	State Lottery Fund 577	Total (Memorandum Only)
Gross Ticket Sales (Note B)	$	$ 215,209,674	$ 215,209,674
Less Returns (Note C)		(15,092,466)	(15,092,466)
Net Sales		200,117,208	200,117,208
Less Allocation of Revenue			
Prize Payments (Note E)		(92,952,212)	(92,952,212)
Distribution to General Fund		(80,046,883)	(80,046,883)
Distribution to Lottery Revolving Fund (Note F)	27,118,113	(27,118,113)	0
Sales Discounts	(10,005,860)	0	(10,005,860)
Net Proceeds Received by Lottery	17,112,253	0	17,112,253
Less Operating Costs			
Salaries & Fringes	2,066,648	0	2,066,648
Accrued Payroll (Note G)	391,645	0	391,645
Accrued Leave (Note H)	112,186	0	112,186
Ticket Costs	5,827,636	0	5,827,636
Advertising Costs	3,050,434	0	3,050,434
Travel	231,029	0	231,029
Goods & Services	1,314,856	0	1,314,856
Supplies	152,805	0	152,805
Purchased Services	16,467	0	16,467
Depreciation (Note I)	26,689	0	26,689
Total Operating Expenses	13,190,395	0	13,190,395
Proceeds in Excess of Obligations	3,921,858	0	3,921,858
Less Transfers (Note S)			
State General Fund	(1,845,580)	0	(1,845,580)
Prize Fund	(2,076,278)	0	(2,076,278)
Proceeds in Excess of Obligations	$ 0	$ 0	$ 0

See Notes to Financial Statement

TAB F

Lotteries and "The Poor": The Verdict Is In

by Robert L. Mote, Scientific Games, Inc., July 14, 1984

An oft-repeated objection to state operated lotteries is that people from lower income households buy a disproportionate amount of lottery tickets. The implicit suggestion is that a lottery should be prohibited in order to protect "the poor." As a matter of empirical fact, it is simply untrue that the poor buy lottery products disproportionately to their percentage of the population.

Before summarizing the substantial evidence to debunk this popular myth that the poor buy more, it is appropriate to consider carefully the real nature of this criticism of lotteries. A thoughtful article concerning the objections of critics to lotteries on this basis was written by Mayor Ernest N. Morial of New Orleans, Louisiana.(1) In responding to a criticism of lotteries on the basis that the poor buy a disproportionate number of lottery tickets, Mayor Morial said:

> "[This position] smacks of a kind of paternalism that I find distasteful. Certainly, the poor and less fortunate members of our community should be protected against those who would unscrupulously prey upon them.
>
> But there would not be any tricks or hidden gimmicks involved in the lottery. Everyone would be informed of the costs, the odds of winning and where every dollar goes. People would be able to make an informed choice on whether they wish to participate in a lottery.
>
> People must make decisions every day about how they are going to spend their income. I think it is carrying elitist paternalism too far when you say that poor people should be protected from deciding whether they can afford to buy a one dollar lottery ticket."

Major Morial's comments echo poignant testimony given last year before a North Carolina legislative committee considering a lottery bill. The witness was an elderly black woman. She had moved to North Carolina from Maryland where she had played the lottery. After hearing testimony from opponents about how lotteries hurt the poor, she responded indignantly. To paraphrase her:

> "I'm an old lady. I'm on social security. I guess I'm one of 'the poor' that these gentlemen want to protect. Where do they get the right? I can protect myself. I played the Maryland lottery. I won and I lost. But I enjoyed it. It gave me something to look forward to. And I didn't starve or go on welfare because of it! It's fun and I have a right to play and not to have somebody tell me I'm wasting my money and hurting myself and my family when I'm not."(2)

That testimony was repeated by Robert Beatty, who identified himself as being retired, and a member of a state senior citizens federation and a state black political caucus. "The lottery offers us new hopes, dreams, a reason to go on trying to live," he said.(3)

Thomas Chema, executive director of the Ohio Lottery Commission, understands why people -- even "the poor" -- play the lottery. "It's a beacon of hope to those who play," he says. "One very small investment may change their lives".(4) Government should not presume to deprive anyone, even "the poor", of that "beacon of hope".

"If a person puts $10 into a state lottery, you assume that money is his risk capital," says Robert Schleck of the Tax Foundation, a Washington-based research organization. "The state government should not be expected to be the Sunday-school teacher who is supposed to monitor him."(5)

Professor Samuel Gorovitz, of the University of Maryland, Department of Philosophy, makes a similar point. "Even if the poor do [play the lottery] less prudently than do others - a claim not yet substantiated - it would be hard to show that they have no right to that imprudence."(6)

But, assume that government should be paternalistic about the poor and lotteries. Is there any evidence that lotteries hurt the poor? Representative Art Simon of Florida, a lottery sponsor, argued that this "is one of the most studied issues I've ever encountered. Study after study shows that lotteries don't hurt the poor. That it is primarily middle America which play lotteries the most."(7)

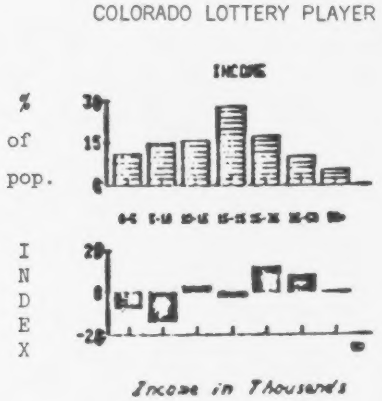
Perhaps one of the most comprehensive independent studies of this issue was performed by Economic Research Associates, Boston, Massachusetts, of the situation in Connecticut. Their extensive study was mandated by the Connecticut Legislature to determine who plays, whether people played to "the exclusion of providing necessities for themselves and their families," leads to "an increase in the number of personal bankruptcies or personal debt", or "an increase in the number of citizens receiving public assistance", or "whether it contributes to the incidence of gambling addiction (compulsive gambling)". (8) The Hartford Courant summarized the conclusion of this extensive independent report: "The results of the study showed that legalized gambling does not create compulsive gamblers...add to the state's welfare rolls...cause increased bankruptcies...or deprive families of life's necessities."(9) The Study also established that one of the underlying facts which may explain this conclusion is that there is a trend for members of higher income groups to be more likely to have bet than members of low income groups.(10)

In fact, it has been conclusively established by numerous statistical analyses of lottery players that "the poor" play the lottery to a lesser degree than their proportion of the population. They do not need government to "protect" them against themselves; they know their needs and spend their money accordingly!

Although research has been conducted in every state with a lottery on the question of whether lotteries are played too heavily by "the poor", the conclusion of the studies in the most recent lottery state, Colorado, typifies the results.

Colorado: Chart 1 below is comprised of two bar graphs. The top graph represents the income group's percentage of the Colorado population. The bottom graph represents an index of lottery participation by the income group. Where the bar is above zero, that group plays the lottery more than their relative proportion in the population, and vice versa.(11)

Chart 1



As the chart dramatically shows, the lower income groups play the Colorado Lottery substantially less than their proportion in the population. The Colorado Lottery explained the methodology of their analysis and also commented generally on this issue.

"Analysis of the winners in lottery games is a statistically perfect sampling of the players of lottery games. During each year, several state lotteries do research on the profile of their players through analysis of winners' age, income, occupation, sex, residence, and lifestyle. Every study conducted in the legal lottery business in North America has shown that the bulk of the lottery tickets are purchased by middle income consumers. Typically, most tickets are bought by persons between the ages of 35 and 54 although the play of the lotteries ranges in age from 18 to over 65. In addition, although the range of players runs from low income to high income, the majority of the tickets are purchased by persons whose household incomes are between $12,000 and $36,000. Research in Colorado indicates that the average education and income of the players are higher than the national average. Even low income players play the lottery from their discretionary income, that is to say, even low income persons purchase lottery tickets on a competitive basis with their purchases of candy, movies and soft drinks. An average of 90¢ a week played on the lottery, while being a higher percentage of the discretionary income of a low income person than it is in a middle income person, is still a minor decision making process."(12)

The results of the Colorado studies are confirmed by numerous other studies about the income levels of lottery players in other states. For example:

> Arizona: An independent study concluded that "the poor are dramatically underrepresented among lottery players."(13)
>
> Delaware: 89% of the buyers of "Daily Numbers" lottery tickets had an annual family income in excess of $10,000. The median family income of players was $19,200 a year, while the median income of non-players was $18,200 a year.(14)
>
> Illinois: People with incomes below $11,000 only participated in lotteries about 75-78% of their percentage of the population.(15)
>
> Maine: Studies "conclusively demonstrate that it is the middle income segment of the population that is the primary market for lotteries....[T]he poor (under $5,000 in income) are extremely underrepresented among lottery players."(16)

Illinois, Michigan, New Jersey, New York, Pennsylvania: An analysis of the household income profiles of over 6.5 million winners established that "the poor participate in the state lottery games at levels disproportionately less than their percentage of the population."(17)

Washington: An analysis of all players in the lottery during the 1983 reporting period indicated the group which played the lottery the least was the under-$10,000 income range.(18)

These are only a sampling of the numerous studies on this issue.(19) The Louisiana legislature, after conducting an extensive investigation on this issue and an analysis of the numerous studies, concluded: "The overwhelming majority of studies conducted in this country illustrate that the poor patronize the lottery in numbers proportionately less than their numerical presence in any community."(20)

The evidence adduced by these studies is acknowledged even by critics. For example, The Berean League of Minnesota, a self-described coalition of concerned Christians, admitted in an extensive paper submitted to the Minnesota legislature in opposition to pending lottery legislation that "Poor people do not play the lottery out of proportion to their percentage of the population (the evidence shows that they play less than their percentage of the population)....[N]othing has surfaced to question the accuracy of the studies that the poor play the lottery...less than other segments of the population.(21)

Perhaps recognizing that this popular criticism of lotteries has been categorically disproven, a few critics have shifted the nature of the criticism. Even if the poor play less than their representation in the community, some opponents such as Michigan State University economics professor Daniel Suits contends that lotteries are a "regressive tax".(22) However, a lottery is not a "tax". It is an entirely voluntary activity on which people spend their discretionary income. Lotteries are no more a regressive tax than are movies, attendance at professional sports games, or any of the other numerous leisure time activities which people voluntarily decide whether to spend money on.

To be sure, there are "regressive taxes". Sales taxes, cigarette taxes, gasoline taxes, liquor taxes and many more are "regressive". But, unlike lotteries, they are not truly voluntary. Moreover, government provides numerous services at a cost which is not dependent on a person's income level (the classic definition of "regressivity"). These range from certain utility services to certain forms of public transportation. Do these same lottery critics argue for an abolition of all these regressive taxes or changing government provided service rates to reflect an individual's income level?

One final comment about this new "regressivity" criticism was best made by Professor Gorowitz. "The case that lotteries are regressive is hard to defend. Since winners are randomly selected, the payoffs go to purchaser groups in direct proportion to their participation. If the poor play more, they win more. Lotteries do not transfer winnings among demographic groups. The issue is simply the State's use of the proceeds. If the State expends the proceeds to the maximum benefit of the disadvantaged, the lottery is progressive, not regressive. Intrinsically, it is neither."(23)

Conclusion

No matter how critics remold the worn-out "poor" argument to avoid the evidence, the verdict is in. To those who originally argued that states generate lottery profits on the "backs of the poor", the evidence established that the poor substantially underplay lotteries. To those who then argued that lottery play by the poor causes them harm, the evidence established that the poor play prudently, without taking bread off the table or increasing welfare roles. To those who now contend that lotteries are a regressive tax, the facts are clear that a lottery is voluntary - not a tax, is inherently neither regressive nor progressive, and to the extent profits are used to fund programs which aid the poor, lotteries are arguably progressive.

Undoubtedly, some clever opponent will fashion some new twist to the "poor" argument, playing on the paternalism of those who believe government should protect "the poor" from their foolish ways! Just as undoubtedly, I submit that whatever new argument this perennial group of critics shift to will be equally refuted by the evidence.

The verdict is in. Lotteries do not hurt the poor. Hopefully, some day, the debate on lotteries will focus on more legitimate public policy issues.

Footnotes

1. The Sunday Advocate, Baton Rouge, La., Nov. 21, 1983, Editorial Page.

2. Testimony before the Senate Rules Committee, North Carolina State Legislature, April 12, 1983.

3. As reported in The Raleigh News and Observer, April 13, 1983, page 1.

4. "The Crying of Lot '84", Forbes, January 16, 1984, p. 35.

5. Quoted in "No Gamble for the States", Newsweek, June 13, 1983, p.68.

6. "Let States Play the Numbers, It's the Only Fair Game in Town", by Prof. Samuel Gorovitz, Hartford Courant, April 8, 1983, p. A 15.

7. Representative Art Simon, testimony before the Subcommittee on Parimutuel of the Committee on Regulated Industries of the Florida House of Representatives, Feb. 7, 1984.

8. "Effects of Legalized Gambling on the Citizens of the State of Connecticut", prepared by Economic Research Associates, April 1981, pursuant to Section 15(b) of Public Act 79-404, Connecticut Laws, at p.I-2.

9. "Legal Gaming Gets Clean Bill", The Hartford Courant, May 6, 1981, p. A20.

10. "Effects", op.cit. fn.8, p.2, p. V-8.

11. Chart reproduced from "Colorado Lottery Facts", October 1983, included in the Report To The Colorado Legislature by the Lottery, dated Dec. 6, 1983.

12. "Colorado Lottery Fact Sheet", October 1983, p.8, included in Report, op.cit. fn.11.

13. "Using Demographics to Increase Lottery Sales", G. E. Shippee, D. J. Schwartzman, K. Reynolds, Public Gaming Magazine, August 1983. See also, "Analysis of Sales Data of Lotteries", July 1983, Scientific Games, Inc., cited in Public Gaming Magazine, December 1983, p.29 (hereafter "Analysis"), and Time, May 28, 1984, p.42.

Footnotes

14. Report by Dr. Keiser, University of Delaware, College of Business and Economics, 1979.

15. Public Gaming Magazine, January 1982, p.33, Table II.

16. "Analysis," op.cit., fn.13.

17. "The Myth of the Poor Buying Lottery Tickets", by Dr. John R. Koza, Public Gaming Magazine, January 1982, at p.40.

18. Washington State Lottery 1983 Annual Report.

19. For a good summary of other studies, see "Myths", Public Gaming Magazine, December 1983, pp. 28-33; see also "Roses and Thorns of State Lotteries", by Bill Curry, State Legislatures Magazine, March 1984, p.9.

20. Final Joint Lottery Subcommittee Report, Louisiana Legislature, April 5, 1983, p. 27.

21. "The Proposed Minnesota Lottery," Report by the Berean League of Minnesota, 1984, pp.22,23.

22. Newsweek, op.cit. fn. 5. See also "Berean", op.cit. fn. 21.

23. Gorowitz, op.cit. fn.6.

THE MYTH OF THE POOR BUYING LOTTERY TICKETS

The purpose of this article is to review the massive body of data that exists on who buys lottery tickets and present some factual information on the question of whether or not the poor actually do buy lottery tickets to a disproportionate basis.

By Dr. John R. Koza

One of the most persistent myths concerning lotteries is that the poor buy a disproportionate share of the tickets. The image is that of a poor, black welfare mother squandering her monthly welfare check on lottery tickets while her helpless children go hungry. The statement that the poor buy disproportionately many lottery tickets almost invariably is joined by the statement that lottery tickets (even though voluntarily purchased) are some kind of 'regressive tax' on the poor.

There is probably not one of the 15 lottery states in the United States that does not have its resident professor who periodically holds a press conference and announces that the poor are disproportionately buying lottery tickets. There is certainly not one legislative hearing in a non-lottery state which does not hear at least one such resident or out-of-state 'expert' solemnly testifying that a state-operated lottery will promote everything from broken homes, public drunkness, organized crime, unemployment, to street muggings. And, of course, the statement is always made that the poor buy lottery tickets disproportionately.

Without exception, in spite of fine credentials in their actual areas of expertise, the 'experts' providing this testimony never present any actual surveys or studies or evidence that support their testimony that the poor disproportionately buy lottery tickets. In many cases, the 'evidence' consists of trying to bootstrap newspaper articles about similar previous unsupported statements into some kind of reality.

Curiously, the belief that the poor buy lottery tickets seems to be especially prevalent among some of the people who constitute the decision-making leadership in our country in business, government, universities and legislatures.

The purpose of this article is to review the massive body of actual data that exists on who actually buys lottery tickets and present some factual information on the question of whether or not the poor actually do buy lottery tickets to a disproportionate basis. The approach and conclusions herein are not based on colorful, isolated individual examples but rather upon an exhaustive examination of the massive records of actual lottery winners maintained by the various state governments involved.

☐ WHAT THE PUBLIC THINKS

Before getting into our main question, however, we need to emphasize a very important point. Namely, whatever some of

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TABLE I

☐ **QUESTION:** I'm going to read some statements people have made about state-operated lotteries. Please tell me whether you agree or disagree with each statement.

☐ STATEMENT	PERCENT AGREEING		
	Arizona	Colorado	D.C.
People are going to gamble no matter what	88%	88%	86%
It makes no difference to me if someone wants to gamble on a lottery	84	83	78
If we authorize some forms of gambling, it will contribute to a bad moral climate	29	21	23
If we have a state-operated lottery, we will soon have casino-type gambling	24	21	27
The only one who is going to get any benefit out of a state lottery is its promoters	21	21	21
All leading law enforcement agencies will be against a state-operated lottery	15	14	20

the 'better informed' decision-makers may think about this issue, the public at large does not believe this myth. In 1980, Public Response Associates of San Francisco, a professional public opinion survey company, conducted three separate public opinion surveys in three jurisdictions where lottery referenda were on the November 4, 1980 general election ballot.

These three areas were Arizona, Colorado and the District of Columbia. In each jurisdiction, approximately 600 registered voters (randomly selected to be representative of the electorate in that jurisdiction) were interviewed to determine their attitudes about a state lottery and their voting intentions on the lottery question in the upcoming election. The interviews were conducted by telephone in March 1980 in Arizona; in both May and October in Colorado; and, in September in the District of Columbia.

The three surveys showed that 81 percent of the public believed that buying a lottery ticket would appeal to the average person, and not the poor.

On the basic question of whether or not the person favored the lottery, the percentages in the surveys were between 55 percent and 57 percent favorable in all jurisdictions. All three referenda were, in fact, subsequently approved in the actual election on November 4, 1980 by percentages of 52 percent, 60 percent and 64 percent. The data from these surveys are considered statistically reliable (as of the time they were taken) within a range of plus or minus 3 percentage points.

The three surveys showed that 81 percent of the public believed that buying a lottery ticket would appeal to the average person and not the poor.

☐ CROSS-TABULATION OF RESULTS

In both the Arizona and the District of Columbia surveys, the percentage of people disbelieving the statement that the poor disproportionately buy lottery tickets was cross-tabulated and is available according to whether or not the respondent intended to vote in favor of having a lottery in the upcoming election. Among those favoring the lottery, 94 percent disbelieved the statement about the poor in Arizona and 88 percent disbelieved the statement in the District of Columbia.

More interestingly, among those opposing the lottery, only 30 percent of those in Arizona believed the statement about the poor and only 23 percent of those in the District of Columbia believed the statement. That is, only a minority of even those who opposed the lottery believed that the poor disproportionately buy lottery tickets.

In the Colorado survey, the percentage of people disbelieving the myth about the poor was cross-tabulated and is available according to whether the respondent said he or she would purchase a lottery ticket if the lottery was ultimately approved.

Among those saying they would purchase a ticket, 95 percent disbelieved the statement about the poor. Among those saying they would not purchase a ticket, only 29 percent believed the statement about the poor. That is, only a minority of even those who did not intend to ever participate in the

TABLE II

This table shows the index of participation of each income group for each different type of lottery game in five lottery states based on the national income distribution. Note that lower income individuals participate less in every instance.

ANNUAL HOUSEHOLD INCOME (1980 Dollars)

	% Over $56,000	% $34,000-$56,000	% $23,000-$33,999	% $18,000-$22,999	% $11,000-$17,999	% $6,700-$10,999	% Under $6,700
☐ $1 INSTANT GAMES (76 Games)							
New Jersey - 9 Games	135	143	120	96	80	74	67
New York - 17 Games	133	126	110	95	89	84	84
Michigan - 25 Games	113	145	123	97	72	71	74
Illinois - 13 Games	110	134	121	94	81	76	78
Pennsylvania - 12 Games	65	84	107	118	105	95	93
☐ 50¢ WEEKLY DRAW-TYPE (22 Games)							
New Jersey- 2 Games	140	145	120	96	79	73	66
New York - 4 Games	115	124	114	98	88	81	83
Michigan - 2 Games	120	152	124	94	69	69	71
Illinois - 11 Games	115	134	120	94	81	75	78
Pennsylvania - 3 Games	70	86	107	118	103	93	92
☐ $1 WEEKLY DRAW-TYPE (24 Games)							
New York - 2 Games	133	126	107	94	90	84	86
Michigan - 4 Games	123	153	123	93	68	69	71
Illinois - 13 Games	110	132	120	95	82	77	80
Pennsylvania - 5 Games	68	85	107	118	104	94	92
☐ $2 INSTANT 'HORSE RACE' GAMES (2 Games)							
New York - 1 Game	133	126	110	95	89	83	84
Pennsylvania - 1 Game	65	84	107	118	105	94	93
☐ $5 DRAW-TYPE GAMES (6 Games)							
New Jersey - 1 Game	138	146	120	96	78	71	65
New York - 1 Game	130	126	110	95	88	83	84
Michigan - 1 Game	125	159	124	92	66	66	69
Pennsylvania - 3 Games	73	87	108	118	103	92	90
☐ $10 DRAW-TYPE GAMES (7 Games)							
New York - 7 Games	148	132	111	93	86	78	80
☐ WEEKLY LOTTO (1 Game)							
New York - 1 Game	108	106	101	98	98	97	96
☐ WEEKLY KENO (1 Game)							
New York - 1 Game	140	128	107	93	90	84	86
☐ PERCENT OF U.S. POPULATION WITH INCOME LEVEL SHOWN	4.0%	13.7%	23.0%	18.9%	12.0%	11.0%	17.3%

☐ NOTE:
This graph is based on analysis of 6,504,237 recorded winners of large prizes in 140 different lottery games of 24 categories from five lottery states. The data represents all valid, in-state, centrally-recorded winners in all 140 games in all 5 states from the time of each lottery's inception (which ranged from 1971 to 1976) until spring 1981. The analysis was performed by Scientific Games Inc. of Atlanta, Georgia.

lottery believed the statement about the poor.

In fact, in a report reviewing the surveys, Public Response Associates said: "Over the past year, we have conducted statewide surveys in several areas concerning voters' sentiments about legalized gambling initiatives (primarily state-supervised lotteries). The findings from all surveys are consistent - most people would like their state to establish a legal, state-operated lottery. Moreover, there are relatively few fears that the legalization of gambling will lead to a bad moral climate." Also, PRA added: "Most voters have positive attitudes about the notion of a lottery; few are concerned about the 'often assumed' negative aspects of a lottery."

It is not until the above average income category of $23,000 to $33,000 that the participation in all five states rises above the national average.

The results of some other attitude questions on lotteries are presented in Table I.

☐ FACTORS ENTERING INTO THE PURCHASE DECISION

Over the past year, Scientific Games Inc. has undertaken a systematic analysis of both demographic and psychological factors that enter into the consumer's purchase decision for various lottery products.

One phase of this work has consisted of a statistical and demographic analysis of every recorded winner of a large prize in every lottery game since the very beginning of each lottery involved. The study included all winners of all large prize levels of all games of all types for which the prize claiming and prize procedure captures the names and addresses of a representative cross-section of winners of that game.

The study included winners in all such games for the entire period of existence of each lottery. This ongoing study has so far examined the demographics of lottery players in five of the most populous lottery states: New York, Pennsylvania, Illinois, Michigan and New Jersey. These five states have a total population in excess of 57 million people (about 38 million adults), which is about two-thirds of the population of the 15 states in the U.S. currently operating lotteries.

So far, this study has encompassed 6.5 million recorded winners of large prizes in 140 different lottery games that these five lotteries have run since their inception (which ranged from 1971 to 1976). Almost 1 million additional winners of large prizes were not included in the study because they were not residents of the states in which they had claimed their lottery prize. To give some perspective to the magnitude of the data base used in this study -*on the average one adult in six* in these five populous states has won a recorded large prize from these lotteries over the five to 10 year time period involved.

In performing this analysis of the demographic and psychological basis for lottery purchase decisions, Scientific Games has drawn upon the computerized data base and survey analysis services provided by three leading market research services - C.A.C.I. of Rosslyn, Virginia (which invented the 'ACORN' system for classifying residential neighborhoods using zip codes), the Claritas Corporation, also of Rosslyn, Virginia (which created the 'REZIDE' data base of Federal Census data in zip code form), and the Stanford Research Institute (which provides a psychological and sociological perspective on consumer buying patterns in its 'Values and Lifestyles' program). The income data used to produce the data for this article relied upon the 'REDIZE' data base.

The 6.5 million recorded winners of large prizes lived, at the time of their winning, in a total of 7,020 different zip codes lying in the five states involved. These 7,020 zip codes averaged about 8,100 people, about 5,500 adults, and about 2,500 households.

If one considers only the larger zip codes (i.e., the 2,110 zip codes in the five states having a population of at least 5,000 people, and these zip codes contain 89 percent of the population of the five states), we find an average of 3,082 recorded lottery winners in each such large zip code. This number of people in each of the these 2,110 large zip codes is more than twice the 1,500 or so respondents commonly used in national public opinion surveys.

The processing of this massive amount of data required hundreds of hours of computer time and several thousand hours of computer programming time.

Curiously, the belief that the poor buy lottery tickets seems to be especially prevalent among some of the people who constitute the decision-making leadership in our country in business, government, universities and legislatures.

☐ ACHIEVING RANDOM SAMPLE

Because winning in the lottery is 'random,' the subgroup of players who win at the various lottery games is a statistically perfect random sample of the players. Since non-redemption is very low in lottery games, the subgroup of players who claim their prizes is essentially the same as the group of players who win. The overwhelming majority of big winners claim their own

TABLE III

This table shows the index of participation of each income group for each different type of lottery game in five lottery states based on the statewide income distribution of each individual state. Note that lower income individuals participate less in every instance.

ANNUAL HOUSEHOLD INCOME (1980 Dollars)

	% Over $56,000	% $34,000-$56,000	% $23,000-$33,999	% $18,000-$22,999	% $11,000-$17,999	% $6,700 $10,999	% Under $6,700
☐ $1 INSTANT GAMES (76 Games)							
New Jersey - 9 Games	89	101	104	102	98	96	95
New York - 17 Games	96	107	109	102	93	90	90
Michigan - 25 Games	95	105	105	100	95	94	92
Illinois - 13 Games	90	107	108	100	95	92	89
Pennsylvania - 12 Games	82	93	102	104	103	101	99
☐ 50¢ WEEKLY DRAW-TYPE (22 Games)							
New Jersey - 2 Games	91	103	105	102	97	94	93
New York - 4 Games	84	106	114	105	91	87	89
Michigan - 2 Games	102	111	106	97	92	92	89
Illinois - 11 Games	94	107	107	100	95	93	90
Pennsylvania - 3 Games	87	96	102	103	101	100	98
☐ $1 WEEKLY DRAW-TYPE (24 Games)							
New York - 2 Games	96	108	107	101	94	92	92
Michigan - 4 Games	104	111	105	96	92	92	89
Illinois - 13 Games	90	105	106	101	96	94	92
Pennsylvania - 5 Games	85	94	102	104	102	101	98
☐ $2 INSTANT 'HORSE RACE' GAMES (2 Games)							
New York - 1 Game	97	108	100	101	93	90	90
Pennsylvania - 1 Game	81	93	102	104	103	100	99
☐ $5 DRAW-TYPE GAMES (6 Games)							
New Jersey - 1 Game	91	104	105	101	96	93	93
New York - 1 Game	94	107	110	102	92	90	91
Michigan - 1 Game	107	116	106	94	88	87	87
Pennsylvania - 3 Games	89	96	103	103	101	99	96
☐ $10 DRAW-TYPE GAMES (7 Games)							
New York - 7 Games	107	113	111	100	90	86	86
☐ WEEKLY LOTTO (1 Game)							
New York - 1 Game	107	106	100	98	97	97	96
☐ WEEKLY KENO (1 Game)							
New York - 1 Game	101	110	107	99	94	91	92
☐ PERCENT OF POPULATION WITH INCOME LEVEL SHOWN							
New Jersey	6.1%	19.3%	26.3%	17.8%	9.8%	8.5%	12.2%
New York	5.5%	16.0%	23.0%	17.7%	11.5%	10.2%	16.1%
Michigan	4.7%	18.8%	27.0%	18.3%	9.0%	8.3%	13.9%
Illinois	4.9%	17.2%	25.9%	17.8%	10.2%	9.0%	15.0%
Pennsylvania	3.2%	12.4%	24.2%	21.5%	12.2%	10.3%	16.2%

☐ NOTE:
This graph is based on analysis of 6,504,237 recorded winners of large prizes in 140 different lottery games of 24 categories from five lottery states. The data represents all valid, in-state centrally-recorded winners in all 140 games in all five states from the time of each lottery's inception (which ranged from 1971 to 1976) until spring 1981. The analysis was performed by Scientific Games Inc. of Atlanta, Georgia.

prize (or, at most, are claiming the prize for someone in the same family or household as themselves) so that the address on the claim is almost always the correct address of the actual ticket buyer.

It should be remembered that, in each case, a state check was mailed to the winner at this recorded address. The state check was mailed, in each case, after the claimant presented a valid winning lottery ticket to an official state lottery claim center and signed the ticket and claim form. The names and addresses of these big winners are contained in the lottery's computerized files of claimants of its various games, and such files have been subjected to numerous internal and external audit procedures.

In preparation for this study, Scientific Games collected the first name, address, and zip code of all such centrally-paid and centrally-recorded big winners of the lottery's various games. This list of big winners was refined so as to include only big winners with valid zip codes within the state involved.

All of the computer programming and analysis in this study was performed by Scientific Games. Neither C.A.C.I., Claritas, nor S.R.I. has been involved in suggesting the design of the computer programs, in writing these computer programs, in performing the analysis, in reaching the conclusions herein, or in the preparation of this article, and accordingly, they bear no responsibility for any conclusions herein.

□ EVOLUTION OF GAMES IN THE 70'S

The data base of 6.5 million winners represents 140 different lottery games run by the five states. The New Jersey Lottery was established in 1971; the Pennsylvania and Michigan Lotteries were established in 1972; the Illinois Lottery was started in 1974; and the New York Lottery was reestablished in 1976. The first four of these states began their operations by offering the public a 50 cent draw-type weekly lottery ticket. Over the years, each of these states varied the design of its basic 50 cent weekly game incorporating a variety of different themes, ways of winning, and ways of awarding the grand prizes.

Each of these states also introduced additional draw-type games, called 'overlay' games. These overlay games, which typically sold for $1, were run in conjunction with the basic 50 cents game. In many cases, these overlay games featured a multitude of ways of winning. The overlay games in Illinois mostly featured sports themes. In several cases, 3-digit themes were used.

In 1975, four of these five states introduced rub-off $1 instant games. New York began its operations in 1976 with a $1 instant game. Since then, the five lotteries have run a total of 76 dfferent $1 instant games incorporating a wide variety of different themes and game designs.

In addition, four of the five states ran special draw-type games at $5 at various times, and New York ran a series of 7 'Olympic' lottery games at $10. Two states ran special Horse Race games at $2 per ticket. New York also offered a Keno game. Finally, all five states now have 3-digit daily numbers games; four have 4-digit numbers games; and two have a 6-digit numbers game (i.e., the New York and New Jersey Lotto games).

□DISTRIBUTION OF HOUSEHOLD INCOME

Table II shows the distribution of household income of the 6.5 million persons who are recorded as having won a large prize in the 140 lottery games involved. Household income is divided into seven categories (based on 1980 dollars). These categories start at the 'Under $6,700' annual household income category and ranges upward to the 'Over $56,000' category. The percent of the U.S. population with each household category is presented at the bottom of the table. For example, 17.3 percent of the U.S. population have household incomes of under $6,700 in 1980 dollars.

Because winning in the lottery is 'random', the subgroup of players who win at the various lottery games is a statistically perfect random sample of the players.

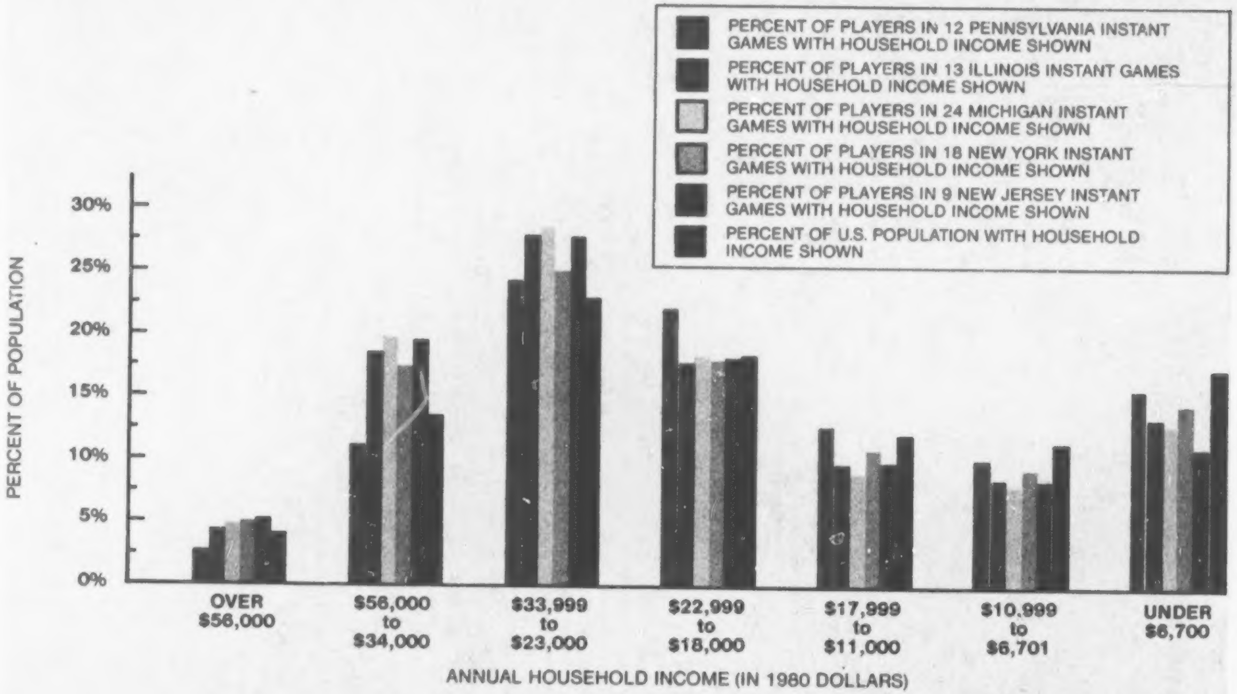
The 140 different lottery games have been analyzed separately; however, for the purposes of this table, games of the same type selling at the same price in the same states have been grouped together. This produces 24 groupings of games. Then, for each of the seven household income categories, an 'index' has been created to indicate the degree to which the income category participates in each of the 24 groupings of lottery games.

Thus, for example, the index number of 135 appearing in the upper left corner of Table II for New Jersey's nine $1 instant games means that participation in New Jersey's nine $1 instant games by the 'Over $56,000' income category in New Jersey is 35 percent higher than this income category represents in the population. And index number below 100, such as the 67 found for New Jersey's instant games in the 'Under $6,700' income category means that participation in New Jersey in the nine $1 instant games among this low-income category is at a rate of only 67 percent of what it would be if this income category participated in proportion to its presence in the population.

The information for the $1 instant games (which represents over half of the 140 games and an even greater portion of the

Graph I

This graph shows the percentage of U.S. population having the ranges of household income shown and the percentage of instant lottery game players in 5 states with that level of income. Note that lower income individuals participate less.



This graph is based on analysis of 1,319,424 recorded winners of large prizes from 76 instant games from 5 lottery states. The data represents *all* valid, in-state, centrally-recorded winners in *all* 76 instant games in *all* 5 states from the time of each state's inception of instant games in 1975 (or 1976, for New York) until Spring 1981. The analysis was performed by Scientific Games Inc. of Atlanta, Georgia.

TABLE IV

INDEXED HOUSEHOLD INCOME DISTRIBUTION

(Above-Average, Average & Below-Average Areas of New York State)
17 $1 Instant Games

	ANNUAL HOUSEHOLD INCOME (In 1980 Dollars)						
	Over $56,000	$34,000-$56,000	$23,000-$33,999	$18,000-$22,999	$11,000-$17,999	$6,700-$10,999	Under $6,700
Above-Average	105	128	120	99	83	75	75
Average	158	139	109	90	83	75	79
Below-Average	140	94	81	89	111	116	113

total lottery revenue involved) is presented graphically in Graph I. This graph is based on 1.3 million recorded winners in these 76 instant games.

In this graph, the seven income categories are presented for each of the five states. The black bar at the right edge of each cluster of bars represents the percentage of the national population that fails into the given household income category. As can be seen, the percentage of those with household incomes above $56,000 is 4 percent nationally. And, in four of the five lottery states shown, this category participates in $1 instant lottery games at slightly above their percentage of the population.

Conversely, in none of the five states is the participation by persons with household incomes below $6,700 above the national average. This is also the case for the $6,701 to $10,999 income category. In fact, it is not until the above average income category of $23,000 to $33,000 that the participation in all five states rises above the national average. The conclusion is that participation in $1 instant games is disproportionately low among those of lower income.

☐ CORRELATION WITH PRICE OF TICKET

Returning now to Table II, we note that the first five rows of index numbers correspond with the data in Graph I.

The next type of lottery game in Table II is the 50¢ weekly draw-type lottery game. Here again, as with the $1 instant, the poor participate proportionately less than their portion of the population. The same conclusion applies to the $1 weekly draw-type games (which were mostly the so-called 'overlay games'), the $2 'Horse Race' games, the $5 draw-type games, the $10 draw-type games, lotto and keno.

As one would expect, the participation of the higher income categories increases as the ticket price increases. The $10 New York Olympic draw-type ticket had an index of 148 of participation in the over $56,000 income category.

Although we have not presented each of the 140 different lottery games separately in Table II, the games of the same type and the same price in the same state typically have virtually indentical index numbers. In none of the 140 lottery games, run over the five to 10 year period by the five states, did the lower income categories participate to a degree even equal to their percentage of the population (i.e., all the index numbers for all 140 individual games were below 100 - just as they are in Table II for 24 groupings of games).

☐ INDEXING SEPARATELY FOR EACH STATE

In addition, we should point out that one can also index the same data to the various statewide household income distributions. The median household incomes for the five states, for example, vary from 101 percent of the national median to 119 percent of the national median. We have done this in Table III.

However, even if the indexing is done for each state separately (that is, against the five different statewide distributions), the conclusion is still the same; that is, there is none of the 140 lottery games in the five states (and none of the 24 groupings of games) over the five to 10 year period for which the lower income categories participate at a rate even equal to their percentage in the population. In all cases, their participation is lower.

☐ PROGRESSION OF LESSER PARTICIPATION BY POOR

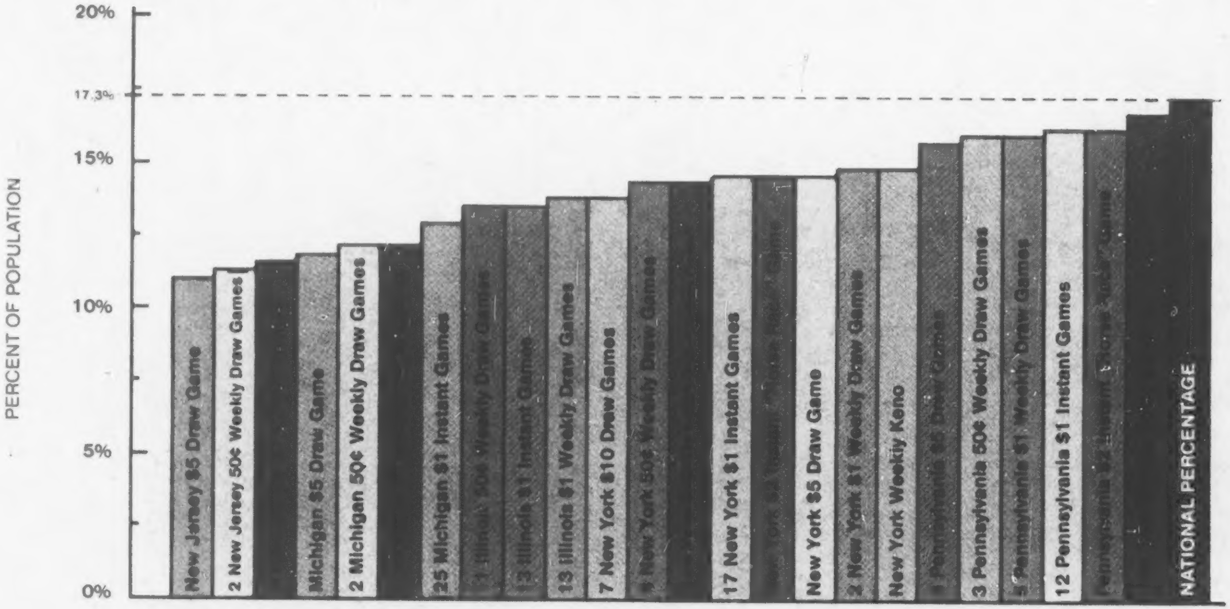
Graph II is another presentation of the data from Table I as it relates to those persons with a household income of under $6,700 in 1980 dollars. It shows graphically again that for none of the 24 groupings of lottery games does the participation of the poor even equal their percentage of the population.

It also shows a progression of this lesser participation by the poor ranging from a low index of 65 (for New Jersey's $5 draw-type game) to a high index of 97 for New York's weekly lotto game. As expected, many of the more expensive tickets have especially low participation among the poor.

Another way to consider the same data is to consider the areas of the state for which sales are average, below-average and above-average. To illustrate this approach, we present this data for New York's 17 $1 instant games in Table IV. New York was chosen because its household income profile for

Graph II

This graph shows the percentage of persons with household income below $6,700 (in 1980 dollars) in each of 24 categories of lottery games conducted by 5 state lotteries. Note that these lower income individuals participate less in every instance.



This graph is based on analysis of 6,504,237 recorded winners of large prizes from 140 different lottery games in 24 categories from 5 lottery states. The data represents *all* valid, in-state, centrally-recorded winners in *all* 140 games in *all* 5 states from the time of each lottery's inception (which ranged from 1971 to 1976) until Spring 1981. The analysis was performed by Scientific Games Inc. of Atlanta, Georgia.

lottery game players was most representative of the average of the five states involved.

For this purpose, an area was defined as having 'above-average' sales if the sales index for that zip code averaged 25 percent or more (over the 17 games) above the statewide level. An area was defined as having 'below-average' sales if the sales index averaged 25 percent or more below the statewide level. The remaining areas were considered 'average'. This approach placed about 24 percent of the New York population into above-average sales areas; about 43 percent into average sales areas; and about 33 percent into below-average sales areas.

☐ DIFFERENT APPROACH YIELDS SAME RESULTS

Having thus divided the state into three distinct areas based on the actual occurrence of recorded lottery winners (and hence players), we examined the household income distribution for the three areas. To facilitate comparison, we have presented this data in the form of indexed numbers in Table IV.

One can see immediately that the income profile of the areas of the state having above-average sales have relatively higher representation of the high-income categories. The same is true of the areas of the state having average sales.

However, for the areas of the state having below-average sales, the income distribution is bi-modal. It contains the 'poor' and it also contains a significant representation of very high income people. The main point, however, is that the lower-income categories are relatively underrepresented in both the average and the above-average sales areas and that the lower-income categories are overrepresented only in the below-average sales areas.

Thus, using this slightly different perspective, the conclusion is again the same. Namely, that the poor participate in the lottery games at a disproportionate rate as compared to their percentage of the population.

We believe that the results of this analysis of the participation of lower-income individuals in lottery games should be considered definitive, since it is based on all valid, in-state, centrally-recorded winners of large prizes in all 140 different lottery games that were run by the five states involved during the entire five to 10 year period in which each state has been operating a state lottery.

The conclusions herein are based upon the fact that 6,504,237 state prize payment checks were mailed to 6,504,237 individuals during the 10 year period in response to their presenting a valid, randomly-winning lottery ticket to the official state lottery claim center. The data base used for this analysis is not only extremely large, it is essentially complete in the sense that there is no more data available anywhere on the names and addresses of actual lottery players in these state lotteries.

It might be added that this conclusion has been well known by all state lottery officials for years (in spite of the persistent myth to the contrary).

One might add that in the course of designing and producing lottery games for 14 of the 15 state lotteries over the past eight years, literally dozens of different public opinion surveys and market research studies have come to my attention and the attention of my associates. These studies have been conducted by a variety of different polling organizations, advertising agencies, and market research companies using a variety of techniques and methodologies.

In every single case, if an income profile of the lottey players was part of the study (and it almost always was), the participation of low-income individuals was less than their percentage of the population and less than the level of participation of individuals with average or above-average incomes.

One final interesting perspective is available from the 1980 District of Columbia survey. In that survey, the percentage of people who intended to buy a lottery ticket was cross-tabulated and is available according to the respondent's income.

The highest percentage of planned participation occurred in the $20,000 to $35,000 income category. The lowest percentages of planned participation occurred in the over $35,000 category and in the two lowest income categories. In other words, the public's own perception of their own future likelihood to participate in a future lottery corresponds to what actually happens - that is, the lower income categories participate less.

☐ CONCLUSION

To summarize: We examined the household income profile of 6,504,237 recorded, valid, in-state winners of large prizes in all 140 lottery games run by the state lotteries of New York, Pennsylvania, Illinois, Michigan and New Jersey since the inception of those lotteries until the spring of 1981 for which the names and addresses of a representative cross-section of winners was in existence.

We examined the data in detail by individual game and by convenient groupings of games, and we examined it on the basis of above-average sales areas in the states. We examined the data against both the national and the individual statewide household income distributions.

Regardless of how we looked at this massive (and essentially complete) data base containing the names and addresses of the many people who actually play state lottery games, the results were the same - namely, "the poor" participate in the state lottery games at levels disproportionately less than their percentage of the population.

The assertion that the poor disproportionately buy state lottery tickets is only a myth. ☐

PART 1

Who Is Playing What: A Demographic Study

By Dr. John Koza

A comparison of participation in 32 various gaming, amusement, and promotional activities.

Dr. John R. Koza is chairman and chief executive officer of Scientific Games, Inc. of Atlanta, Georgia, a leading supplier of games to the state lottery market. He has a B.A. and M.S. in computer and communications sciences, an M.A. in mathematics. He received a Ph.D. in computer science from the University of Michigan in 1972. In 1973, he was co-founder (with Daniel W. Bower, president) of Scientific Games. In 1974, Scientific Games introduced America's first rub-off instant state lottery game in Massachusetts.

One of the recurring topics of discussion in the public gaming industry has been the extent to which the markets for various gaming products do or do not significantly overlap.

For example, what percentage of the regular participants of state lottery games also go to the race tracks for parimutuel betting? What percentage of race track players also go to casinos? What percentage of church/charity bingo players or break-open/pull-tab players also buy state lottery tickets? What percentage of likely players of electronic video Player-Activated Lottery Machines (PALMs) are currently regular participants in the state lotteries' existing rub-off instant games? Pick 3? Pick 4? Pick 6 (Lotto)?

This article is the first of several articles which compare the markets for 32 various gambling, amusement, and promotional activities at the consumer level.

The 32 activities include 10 "hard-core" gambling activities (such as horse racing and various casino games); two illegal gambling activities (betting with a bookie or playing so-called "gray area" video machines); five "soft-core" gaming activities (the state lottery subscriptions); three "social" gaming activities (bingo, raffles, break-open/pull tab tickets); three "friendly" gambling activities (betting with a friend on poker, cards or sports); three "get something for nothing" activities (commercial promotional giveaway games, non-skill sweepstakes contests, and skill contests); three amusement activities (e.g., home video games, coin-operated video amusement games outside the home, pinball games), two "virtuous" "get something for nothing" activities (trading stamps and cents-off coupons); and one hypothetical activity (playing an electronic video Player-Activated Lottery Machine).

This first article focuses on comparing participation of various demographic groups in the 32 different activities. The second article will focus on the specific question of the percentage of overlap at the consumer level of regular participation in the 32 activities. The third article will compare the participation in the 32 activities according to the consumer's psychographic viewpoint – particularly their "Values and Lifestyles" (VALS). The fourth article will compare participation according to their residential neighborhood type.

Continued on page 11

Casinos, Government Examine Extent of Money Laundering

While no-one is denying that casinos are being used by some patrons as vehicles for "laundering" substantial sums of money, industry spokesmen say they are concerned about misleading conclusions and unnecessary regulations.

By Dan Heneghan

Atlantic City's casinos have been used by criminals to launder money, but the city's casino operators argue it isn't their fault and they shouldn't have to take the blame for it through new regulations.

"We don't want to be singled out as if we are doing something wrong," said John Donnelly, corporate counsel to Resorts International, Inc.

Following a hearing by the House Subcommittee on Crime, industry officials expressed concern about a proposal by the U.S. Treasury Department to extend to casinos a banking requirement to report all cash transactions of $10,000 or more.

David Gardner, acting director of the Atlantic City Casino Hotel Association, said extending the reporting requirement to casinos may be "overkill" but said the industry doesn't have an official position on the proposal.

"We are against crime and we are against this industry being used for criminal purposes," Gardner said. But he added the law enforcement officials don't know how serious a problem money-laundering at casinos is and that they may be able to address the problem without any new regulations.

Opposition to the proposal also comes from the Nevada congressional delegation, led by Sen. Paul Laxalt, R-Nev. Laxalt, a former casino owner and a close political ally of President Ronald Reagan, has asked federal authorities for more evidence of laundering through casinos before extending the regulation.

Based on a preliminary review of the situation, money-laundering in Atlantic City casinos appears to be a "very serious problem," according to New Jersey Attorney General Irwin Kimmelman.

He told the subcommittee that the Division of Gaming Enforcement had studied the amount of cash deposited in the nine casinos. He said that in June 1983, $28 million in cash was deposited in the casinos and 356 individuals made cash deposits in excess of $10,000. Of those people, 55 had "serious criminal records," Kimmelman said.

He said the money flows through the casinos "faster than through most branch-office banks."

W. Hunt Dumont, the U.S. attorney for New Jersey, said casinos are growing in popularity for money-laundering operations because federal authorities have cracked down on banks and other financial institutions.

But Gardner said it would be unfair to extend the reporting requirement only to casinos. He noted that if a person pays cash for a new car, the automobile agency doesn't have to fill out a form indicating where the money came from. "We shouldn't be singled out," he said.

Donnelly noted that there is a tax reform bill pending in Congress which would require any business that receives more than $10,000 in cash in a single transaction to fill out the same

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Who Is Playing

Continued from page 8

Shortage of Actual Information On The Subject

Although there has been considerable consumer research over the years covering specific individual areas of the public gaming field (i.e., just casinos, just racing, just lotteries, etc.), there appears to be no meaningful consumer research available on this question of overlap. To the extent that any previous consumer research has even touched on this overlap issue, the data has not been gathered in any consistent way with regard to the date of the research, the geographic region of the research, the methodology of the research, question wording, response categories, or the respondents involved in the research.

Of course, to the extent that two separate consumer research studies indicate that the participants of two different gaming activities have dramatically different demographic profiles (i.e., the players of casino blackjack at a table versus the players of the state lottery's daily 3-digit "numbers" game), one can be reasonably certain that the markets for the two gaming products do not overlap significantly.

However, a much more likely situation is that there are some similarities and some differences when one compares the demographics of two different activities. Thus, good conclusions about overlap are only possible if one carefully and specifically designs the consumer research to produce results concerning this question of overlap.

Methodology

Designing consumer research to explore the question of overlap is not conceptually difficult – it is merely very time-consuming and expensive. The obvious and preferable way to explore this question is to ask a relatively large number of individuals about their participation in each of a long list of different activities.

If one surveys a suitably large number of respondents (so that some statistical significance can be attained for the overlapping groups) and then -cross-tabulates the answers of the individual respondents, it is possible to accurately compute the percentage of overlap. Similarly, it is also possible to compute the amount of money involved in the overlap.

The methodology for collecting the data for these articles was a public opinion survey conducted by mail among persons 18 years of age or older living in New Jersey. The field work was conducted in November and December 1982. A rather large sample was undertaken to increase our ability to accurately examine population subgroups. The survey was carefully conducted to maximize response rates and thereby maximize the accuracy of the psychographic "Values and Lifestyles" (VALS) classification process (which will be discussed in a later article in this series).

Questionnaires were completed by 1,876 adults. This represents a completion rate of 78.5 percent in terms of persons agreeing to participate in the survey. In all, over 881,000 individual question responses were collected and cross-tabulated. We believe this survey was the most detailed and extensive single survey and database of this type ever collected in the public gaming field.

Focusing this study on the state of New Jersey is appropriate (and necessary) since New Jersey is the only state that has both legalized casino gambling and a state lottery. Moreover, New Jersey has parimutuel horse race betting and has also a population that participates in most other forms of gaming, including everything from charity/church bingo to illegal "gray area" video poker and blackjack machines.

In addition, the state lottery in New Jersey has been consistently innovative over the years and has successfully operated all of the major/types of lottery games for significant periods of time. It has, for example, the oldest and first "Pick 3" daily "Numbers" game using computer terminals; it has the oldest and first "Pick 4" game; it has the oldest and first computerized "Pick 6" Lotto game.

State-authorized and state-conducted gaming constitute a substantial percentage of the annual state budget, and public gaming is well accepted and well established in the state. Because of the state's relatively small size and good highways, the state's geographically isolated gaming activiities (i.e., the Atlantic City casinos and the various race tracks) are readily accessible. In short, the various forms of gaming, amusement, and promotional activities all comingle freely in New Jersey as part of the state's landscape.

There are two other points that are relevant to the selection of New Jersey for this kind of study. First, while each state is unique, New Jersey is reasonably similar demographically to many of the other large states where state-operated lotteries are currently operating. Secondly, and more importantly, all of the tables in this study (except Table 1) give numerical information about the behavior of some subgroup of the population.

The information is either an index of participation indicating the propensity of a demographic, psychographic, or residential subgroup to engage in a certain activity, or the information is a percentage indicating the percentage of a subgroup participating in one activity which simultaneously participates in a second

Who Is Playing

activity. In neither case is the actual percentage of presence of the subgroup in the population of the State of New Jersey relevant.

Of course, in applying the data or conclusions from any study to any other situation, one must examine the individual specific situation and decide whether the methodology of the particular study reasonably allows the data or conclusions to be used. I believe the subgroup performance from this study is relevant to many other situations. I even believe it is relevant to the performance of entire different states, since I tend to view each individual state in the U.S. as being merely a patchwork quilt composed of differing percentage mixes of various common pieces of fabric.

Thus, if a particular demographic subgroup in New Jersey participates in a given activity to a certain degree, this fact may be highly indicative of the degree of participation of that same demographic group in another state, even though the number of people in that demographic subgroup may be larger or smaller in that other state.*

This "patchwork quilt" viewpoint is persuasively presented in such publications as *Candidates, Issues, and Strategies – A Computer Simulation of the 1960 and 1964 Presidential Elections* by Ithiel de Sola Pool et. al., *The 480* by Eugene Burdick (1964) and "Geodemographics: The New Magic" by Jonathan Robbin in *Campaigns and Elections* (Spring 1980). Indeed this viewpoint (regardless of how phrased) in fact underlies virtually all modern techniques of simulation, surveying, and demographic analysis.

TABLE 1: PERCENT OF NEW JERSEY ADULTS WHO PARTICIPATE IN 32 VARIOUS GAMBLING, AMUSEMENT, AND PROMOTIONAL ACTIVITIES

PERCENT	ACTIVITY
49.6%	Play charity or church Raffles once a month or more often (100% of money)
49.3%	Use Cents-Off Coupons 2 times a month or more often
45.7%	Likely to play Video Player Activated Lottery Machines (PALMs)
33.0%	Play Slot Machine in an Atlantic City Casino frequently or more often
32.6%	Play Cards for money with friends 2 times a month or more often (88% of money)
27.0%	Participate in some form of Casino Gaming in Atlantic City in past year 2 times a year or more often (93% of money)
22.0%	Play the State Lottery's "Pick 6" (Lotto) game 2 times a month or more often (93% of money)
21.8%	Play Coin-Operated Video Game outside the home once a month or more often (96% of money)
17.9%	Play Video Games at home 2 times a month or more often
16.0%	Play State Lottery's Rub-Off Instant Game 2 times a month or more often (86% of money)
15.9%	Play charity or church Bingo once a month or more often (100% of money)
14.8%	Enter a Non-Skill Contest to win prizes once a month or more often
14.0%	Play the State Lottery's "Pick 4" game 2 times a month or more often (96% of money)
13.4%	Go to the Horse Race track 2 times a year or more often (92% of money)
13.1%	Play the State Lottery's "Pick 3" (Daily Numbers) game once a week or more often (91% of money)
12.8%	Play Progressive Slots in an Atlantic City Casino frequently or more often
11.4%	Play Blackjack ("21") at a Table in an Atlantic City Casino frequently or more often
10.6%	Play a free game ticket given away by stores to win prizes once a month or more often (Giveaway Game)
10.3%	Play Pinball 2 times a month or more often (93% of money)
9.9%	Play charity or church Break-Open or Pull Tab Tickets once a month or more often (100% of money)
9.7%	Bet with a friend on Football game, Baseball game, or other Sporting Event once a month or more often (68% of money)
9.2%	Play Poker 2 times a month or more often
6.6%	Save Trading Stamps 2 times a month or more often
4.9%	Play a coin-operated video poker or Blackjack machine outside Atlantic City to win cash or other prizes (Illegal Video "Gray Machines") once a month or more often
4.9%	Play Roulette in an Atlantic City Casino frequently or more often
4.4%	Enter a Skill Contest to win prizes once a month or more often (e.g., "In 25 words or less tell why. . .") 2 times a year or more often
4.3%	Purchase (or received as a gift) the State multi-week lottery Subscription once a month or more often
4.1%	Play Big Six (Big Wheel) at an Atlantic City Casino frequently or more often
3.8%	Play Legal Video Poker Slots in an Atlantic City Casino frequently or more often
3.5%	Play Video Blackjack Slots in an Atlantic City Casino frequently or more often
3.1%	Play Craps (Dice) in an Atlantic City Casino frequently or more often
2.3%	Bet with a Bookie 2 times a month or more often (88% of money)

See also pages 24, 25, and 29 of "Comparative Demographics of Six Types of Lottery Products", "Public Gaming Magazine," June 1982.

Acknowledgements

In this regard, the author wishes to acknowledge the excellent work and assistance of Dr. Stephen Crocker, Ms. Gloria M. Esdale, and Dr. Ronald H. Pyszka of the Values and Lifestyles (VALS) program of the Stanford Research Institute (SRI) of Menlo Park, California; Daniel Hagan of Chilton Research of Radnor, Pennsylvania; and David McGuerty and Terry Mangold of Scientific Games, Inc. of Norcross, Georgia.

The 32 Activities

In the survey, we obtained detailed information about the frequency of participation of each respondent for each of the 32 various gaming, amusement, and promotional activities. Generally, we collected data on about six or seven different levels of participation for each of the 32 activities in the survey. However, in order to make the data more easily comprehensible here, we have, for purposes of this study, defined a single frequency for each activity, so we can talk about the "regular participants" in that activity.

In general, our "regular participants" include more people than the activity's "hard core" participants, but do exclude casual participants who engage in the activity only occasionally.

In identifying a suitable frequency for defining these "regular participants," we considered several factors. For example, the state lottery's daily Pick 3 "numbers" game has a "natural frequency" of one time per day since the game has a daily drawing. As it happens, 4.7 percent of the adults in the state play this game daily. This 4.7 percent of adults is, of course, the "hard core" group of players for this particular game.

Studying the "hard core" market for almost any product can be quite interesting and informative. However, it seemed that a more suitable definition of the market for the purposes of this study would be somewhat broader than this "hard core" and contain some additional persons who played the game regularly even though not daily.

Although buying a raffle for a chance to win a big prize for oneself is as much gambling as playing on craps in a casino, the public obviously has a very benign view of raffles.

To aid us in finding this more suitable frequency, we consulted additional back-up questions in our survey relating to the amount of money each respondent spent on the various activities. We collected data on these money amounts for a majority of the activities in this study (not counting the activities where the participation in the activity was free and not counting the individual games in the casinos).

In the case of the 3-digit daily "numbers" game, it turned out that 64 percent of the money generated comes from the "hard core" 4.7 percent of the adult population of the state who play the game daily. However, we desired to have our "regular participants" be defined in terms of a somewhat higher percentage of the money – in particular, between 85 percent and 100 percent of the money. Thus, after examining both the frequency data and the monetary data, we defined a "regular participant" for this game to be a person who played once a week or more often.

This broader definition captures 91 percent of the money and subsumes 13.1 percent of the adults in the state. Going to an even rarer frequency in order to further raise the percentage of money did not seem appropriate since the game is, after all, a daily game. A person who played only monthly (i.e., one time out of 31 opportunities) did not seem to be a "regular participant" of a "daily" game.

It should be noted that to the extent that we consider such infrequent players as regular participants, we obtain an increasingly less sharp picture of the marketplace. For example, it is well known that upwards of 85 percent of the adults in most states having state lotteries have played the state lottery; however, the regular players of the lottery's four major games (i.e., the instant game, Pick 3, Pick 4, and Pick 6) which generate virtually all of the money, are minorities of between about 13 percent and 22 percent of the population.

Similarly, the state lottery's Pick 6 (Lotto) game had a "natural frequency" of one time per week; however, by defining our regular participant as an adult who played two or more times per month, we obtained a somewhat broader group capturing 93 percent of the money (and 22.0 percent of the adults).

We proceeded similarly for each of the 32 activities, considering a variety of different factors that seemed appropriate for the activity. For activities such as traveling to a race track or traveling to a casino in Atlantic City, we adopted a frequency of two times a year or more often and thereby

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TABLE 3: INDEX OF PARTICIPATION FOR THOSE WITH 1 OR MORE YEARS OF HIGHER EDUCATION

ACTIVITY	INDEX
Roulette	124
Blackjack at a Table	117
Video Games at Home	113
Craps	112
Raffles	108
Coin-Operated Video Outside Home	107
Horse Races	102
Likely Video Lottery Players	101
Skill Contest	101
Illegal Video Gray Machines	96
Break-Open or Pull Tab Tickets	96
Sports Betting with Friend	95
Cards for Money with Friends	94
Trading Stamps	94
Legal Video Blackjack Slots	94
Non-Skill Contest	94
Cents-Off Coupons	94
Atlantic City Casino Gaming	93
Legal Video Poker Slots	92
Giveaway Games	91
Slot Machines	89
Progressive Slots	89
Pinball	85
Big Six	84
Lottery Subscription	77
Bingo	70
Pick 6 (Lotto) Lottery	69
Rub-Off Instant Lottery	69
Poker	65
Pick 4 Lottery	61
Pick 3 (Daily) Lottery	53
Bet with a Bookie	51

TABLE 4: INDEX OF PARTICIPATION OF MEN

ACTIVITY	INDEX
Bet with a Bookie	150
Craps	144
Sports Betting with Friend	138
Blackjack at a Table	138
Roulette	135
Pinball	125
Coin-Operated Video Outside Home	124
Poker	122
Non-Skill Contest	119
Pick 6 (Lotto) Lottery	118
Horse Races	115
Cards for Money with Friends	114
Pick 3 (Daily) Lottery	114
Video Games at Home	113
Pick 4 Lottery	112
Rub-Off Instant Lottery	112
Illegal Video Gray Machines	111
Atlantic City Casino Gaming	105
Likely Video Lottery Players	97
Skill Contest	95
Legal Video Poker Slots	95
Break-Open or Pull Tab Tickets	95
Big Six	93
Lottery Subscription	92
Raffles	91
Slot Machines	88
Giveaway Games	86
Progressive Slots	85
Cents-Off Coupons	84
Legal Video Blackjack Slots	79
Trading Stamps	70
Bingo	66

TABLE 5: INDEX OF PARTICIPATION OF BLACKS AND HISPANICS

ACTIVITY	INDEX
Pick 4 Lottery	199
Pick 3 (Daily) Lottery	197
Bet with a Bookie	174
Skill Contest	150
Sports Betting with Friend	146
Pinball	141
Pick 6 (Lotto) Lottery	131
Craps	127
Legal Video Poker Slots	127
Bingo	122
Big Six	120
Coin-Operated Video Outside Home	118
Legal Video Blackjack Slots	113
Lottery Subscription	113
Non-Skill Contest	111
Rub-Off Instant Lottery	105
Progressive Slots	103
Slot Machines	101
Poker	101
Likely Video Lottery Players	99
Raffles	94
Video Games at Home	94
Break-Open or Pull Tab Tickets	85
Cards for Money with Friends	81
Giveaway Games	79
Roulette	72
Illegal Video Gray Machines	72
Cents-Off Coupons	72
Atlantic City Casino Gaming	69
Trading Stamps	67
Horse Races	62
Blackjack at a Table	54

TABLE 6: INDEX OF WHITE COLLAR PARTICIPATION

ACTIVITY	INDEX
Roulette	149
Craps	129
Skill Contest	126
Horse Races	116
Blackjack at a Table	113
Big Six	111
Raffles	110
Atlantic City Casino Gaming	109
Progressive Slots	108
Sports Betting with Friend	106
Break-Open or Pull Tab Tickets	106
Likely Video Lottery Players	106
Lottery Subscription	104
Coin-Operated Video Outside Home	104
Video Games at Home	103
Non-Skill Contest	101
Slot Machines	101
Legal Video Poker Slots	96
Cards for Money with Friends	96
Cents-Off Coupons	94
Pinball	91
Pick 4 Lottery	91
Pick 6 (Lotto) Lottery	91
Trading Stamps	91
Legal Video Blackjack Slots	89
Pick 3 (Daily) Lottery	86
Rub-Off Instant Lottery	83
Bingo	80
Giveaway Games	79
Poker	78
Illegal Video Gray Machines	75
Bet with a Bookie	50

TABLE 7: INDEX OF PARTICIPATION OF PERSONS WITH HOUSEHOLD INCOME $7,500 OR LESS

ACTIVITY	INDEX
Bet with a Bookie	171
Pinball	152
Poker	150
Sports Betting with Friend	137
Bingo	126
Trading Stamps	119
Coin-Operated Video Outside Home	119
Giveaway Games	116
Skill Contest	111
Legal Video Poker Slots	102
Pick 3 (Daily) Lottery	101
Pick 4 Lottery	94
Cards for Money with Friends	93
Non-Skill Contest	93
Likely Video Lottery Players	92
Rub-Off Instant Lottery	92
Break-Open or Pull Tab Tickets	89
Legal Video Blackjack Slots	84
Horse Races	84
Cents-Off Coupons	82
Illegal Video Gray Machines	80
Progressive Slots	80
Blackjack at a Table	78
Slot Machines	77
Video Games at Home	77
Raffles	77
Pick 6 (Lotto) Lottery	69
Atlantic City Casino Gaming	69
Craps	62
Big Six	60
Lottery Subscription	57
Roulette	50

TABLE 8: INDEX OF PARTICIPATION OF PERSONS WITH HOUSEHOLD INCOME OF $35,000 OR MORE

ACTIVITY	INDEX
Roulette	152
Blackjack at a Table	133
Legal Video Poker Slots	126
Break-Open or Pull Tab Tickets	122
Craps	115
Horse Races	112
Raffles	109
Video Games at Home	105
Progressive Slots	103
Legal Video Blackjack Slots	103
Trading Stamps	103
Cards for Money with Friends	98
Coin-Operated Video Outside Home	96
Bet with a Bookie	96
Slot Machines	95
Atlantic City Casino Gaming	91
Cents-Off Coupons	90
Big Six	89
Pinball	89
Likely Video Lottery Players	89
Lottery Subscription	88
Rub-Off Instant Lottery	88
Illegal Video Gray Machines	86
Sports Betting with Friend	85
Non-Skill Contest	84
Poker	79
Giveaway Games	76
Pick 6 (Lotto) Lottery	76
Skill Contest	72
Pick 4 Lottery	69
Pick 3 (Daily) Lottery	64
Bingo	64

TABLE 2: INDEX OF PARTICIPATION FOR AGES 18-34 IN 32 VARIOUS GAMING, AMUSEMENT, AND PROMOTIONAL ACTIVITIES

ACTIVITY	INDEX
Coin-Operated Video Outside Home	182
Pinball	170
Illegal Video Gray Machines	150
Legal Video Poker Slots	149
Legal Video Blackjack Slots	141
Sports Betting with Friend	140
Skill Contest	138
Giveaway Games	133
Video Games at Home	129
Likely Video Lottery Players	127
Blackjack at a Table	126
Craps	119
Break-Open or Pull Tab Tickets	117
Cards for Money with Friends	117
Progressive Slots	116
Horse Races	115
Poker	115
Roulette	112
Bet with a Bookie	103
Atlantic City Casino Gaming	100
Raffles	99
Slot Machines	98
Big Six	98
Non-Skill Contest	96
Bingo	90
Pick 6 (Lotto) Lottery	89
Cents-Off Coupons	83
Rub-Off Instant Lottery	78
Pick 4 Lottery	76
Pick 3 (Daily) Lottery	76
Trading Stamps	39
Lottery Subscription	28

Who Is Playing

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subsumed 92 percent and 93 percent, respectively, of the money.

Table 1 shows each of the 32 gaming, amusement, and promotional activities in descending order of the percentage of the adult population of New Jersey who were "regular participants," using the definition of "regular participant" stated therein for each activity. In this table, we have highlighted the five state lottery activities by coloring them green, and we have highlighted the six video activities by coloring them blue.

The most frequent activity in Table 1 is playing charity/church raffle once a month or more often. Although buying a raffle for a chance to win a big prize for oneself is as much gambling as playing on craps in a casino, the public obviously has a very benign view of raffles. 49.6 percent of the adults buy raffle tickets once a month or more often.

Using "cents-off" coupons two times a month or more often (a "something for nothing" activity) is second with 49.3 percent of the adults using them. The third highest percentage (45.7 percent) are those who said they would be likely to play an electronic video Player-Activated Lottery Machine (PALM).

Proceeding down the list, we note, for example, that persons who play church/charity bingo once a month or more often represent 15.9 percent of the population, while those who go to the race track two times a year or more often represent 13.4 percent of the population. 9.9 percent of the population plays charity/church break-open/pull-tab tickets two times a month or more often. 4.9 percent of the adults play an illegal "gray area" coin-operated video poker or video blackjack machine paying prizes (outside a casino in Atlantic City) once a

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Laundering

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form that banks now fill out.

"If truly the concern is to stop this kind of stuff, then this is the way to do it," Donnelly said.

He questioned why the regulation should first be extended to cover casinos when the problem is much greater in southern Florida.

"The bulk of this goes on in south Florida where people buy yachts, Mercedes, even homes, and resell them," he said.

At the subcommittee hearing, State Police Superintendent Col. Clinton L. Pagano detailed a number of incidents where drug traffickers, organized crime figures, smugglers and other criminals have used casinos to launder their money.

For example, he said five major criminals each deposited more than $100,000 cash at Playboy Hotel & Casino in 1981 and 1982.

Pagano also listed seven other "career criminals" he said had "washed money" through other casinos by making large cash deposits. The incidents occurred at several casinos, including: Resorts International Hotel Casino, Golden Nugget, Caesars Hotel Casino, the Claridge Hotel and Casino, and Harrah's Marina.

Part of the problem is that industry officials seldom, if ever, ask patrons where they got their money.

Both Gardner and Donnelly admitted that one of the industry's major concerns is to maintain the confidentiality of its patrons. But as a result, casinos attract people involved in illegitimate businesses who are looking for a way to launder their illegal profits.

Kimmelman noted that in January, 1983, five individuals were arrested after they tried to launder $100 bills that had been taken in a multi-million dollar robbery at Kennedy Airport in New York City.

"The five, acting separately, were exchanging these $100 bills for chips at the craps tables, playing one roll of dice, and then exchanging the chips for clean money at the casino cage," Kimmelman said.

In another case, the attorney general said a Washington, D.C. heroin trafficker made a series of deposits and withdrawals at Atlantic City casinos. Over a four-month period, the individual moved more than $1 million through the gaming halls. Kimmelman noted that some of the money was wired out of the casino to an account the individual had with an off-shore bank.

The hearing was chaired by Rep. William Hughes, D-N.J., who represents Atlantic City in Congress.

Hughes said the purpose of the hearing was to determine the magnitude of the problem and how many criminals are using casinos as a vehicle to launder money.

"Then we will look at loopholes in the law which make it advantageous to use the casinos," Hughes said. "If the loopholes exist, we should change them."

The congressman emphasized that there is no allegation whatsoever that casinos are involved in illegal activity.

Many of Atlantic City's casinos have already instituted new procedures to thwart money laundering. For example, when a patron deposits a large amount of cash at a casino cage, the bills are placed in an envelope and set aside. When the patron tries to cash out, he is given back the same bills he brought in.

Treasury Department officials are expected to meet with representatives of the casino industry to discuss alternatives to reporting all cash transactions over $10,000.

Hughes said he also will hold another hearing in April so Treasury officials can report the result of those meetings.

Robert Powis, deputy assistant treasury secretary for enforcement, told the congressional subcommittee that money-laundering has increased dramatically in the last decade—an increase that has paralleled an increase in drug trafficking. He noted that from 1974 to 1983, the amount of surplus currency held by the Federal Reserve Bank in Florida rose from $920 million to $5.7 billion.

He said much of that money is the result of drug trafficking. Drug traffickers have tried a number of ways to escape the detection of law enforcement agencies. Those agencies have noticed an increased use of casinos in both Atlantic City and Nevada and Powis said it appears the cases that have surfaced represent only "the tip of the iceberg."

Powis noted the example of a Las Vegas drug dealer who allegedly laundered $16 million in drug revenue in 1980 alone. The drug dealer told IRS undercover agents that he could launder money at any casino in Las Vegas, Powis said. **PG**

Who Is Playing

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month or more often. This amounts to about a quarter-million adults in the state.

Note that blackjack ("21") appears in Table 1 in three different guises. It appears as a legal "table game" in casinos in Atlantic City; it appears as a legal video blackjack slot machine in casinos in Atlantic City; and it appears as an illegal "gray area" video machine outside Atlantic City. As will be seen, the "regular participants" of these three different types of blackjack are dramatically different.

To simplify later tables, we have underlined a shortened description of the activity in Table 1 and we will use that "short title" for the activity in all other tables.

Table 1 presents the percentage of the money represented by the "regular participants" (i.e., the players who play at the stated frequency) in all cases where this monetary data was available for that activity.

For example, Table 1 shows that 27.0 percent of the adult population of the state visited a casino in Atlantic City two times a year or more often. (The fact that 27 percent of the adults in the state go to the casino twice a year or more is itself, I believe, quite amazing.) These "regular participants" represent 93 percent of the money involved.

In the special case of casinos, however, we did not attempt to obtain a detailed division of this money according to individual casino games because we felt the relative infrequency of people's visits would raise a question about their memory of the details of their trip. Moreover, in this non-interview type of survey, we were concerned about people confusing the total amount they took to Atlantic City in their pocket (i.e., their "budget" or "stake") with the amount they actually bet while there.

If a player, for example, goes to Atlantic City with $500 in his pocket, plays a $1 slot machine or table game with a 97 percent payout, and loses it all, then he would typically have placed bets totalling around $16,700 in the process of obtaining this result. If you were to approach this person and suggest that he gambled $16,700 or more, he would, of course, vigorously deny that he was a $16,700 "high roller."

In the case of casinos, however, we did attempt to carefully identify players' preferences as to the various different types of casino games. Using a working concerning frequency that was previously used successfully in a marketing survey conducted for Bally's Park Place Casino, we arrived at a definition of "regular participant" in individual casino games as one who played that particular game "frequently" (as contrasted with other rates used in the survey). As will be seen shortly, this definition apparently worked, and it produced meaningful differences among the various casino gaming activities.

18-34-Year-Olds

Table 2 presents the index of participation for adults aged 18-34 for the 32 various gaming, amusement, and promotional activities. The indices are computed by dividing the percentage of 18-34-year-olds who participate in a given activity by the percentage of 18-34-year-olds in the adult population as a whole, and then multiplying the result by 100.

If persons between the ages of 18 and 34 participate in a given activity with an index above 100, then that means that they participate in that activity to a degree greater than their mere proportional presence in the adult population as a whole. If persons between the ages of 18 and 34 participate in a given activity with an index below 100, then that means that they underparticipate in the activity. An index number of exactly 100 for a particular subgroup of the population and a particular activity means that the subgroup participates in that activity at a rate that is equal to that subgroup's presence in the population.

In Table 2 (and later tables), the 32 activities are presented in descending order of their index of participation so as to highlight the activities in which the demographic group involved overparticipates and underparticipates in the activity. A line appears at 100 to separate the activities. Indices of 120 and above and of 80 and below are colored red to highlight them.

A quick glance at Table 2 will indicate that there is a considerable variation in the index of participation of 18-34-year-olds in the 23 gaming, amusement, and promotional activities. For example, the lowest index of any activity (28) is associated with buying a long-term lottery subscription by mail, while the highest index (182) is 6½ times greater and is associated with playing coin-operated video amusement games (i.e., Pac-Man) outside the home.

The five lottery activities are colored green in Table 2. A quick glance at Table 2 will indicate that all five lottery activities (instant games, Pick 3, Pick 4, Pick 6, and lottery subscriptions) have indices well below 100. This reflects the known fact that all existing lottery products have a disproportionately low appeal among younger persons.

In fact, the five existing products of the state-operated lottery industry are clustered at the very bottom of this chart, along with such "unswinging" activities as trading stamps, cents-off coupons, bingo, and non-skill contests (i.e., sweepstakes and other commercial games where the player merely enters the contest, but uses no skill in so doing).

The six video activities are colored blue in Table 2. A quick glance at Table 2 will indicate that all six video activities have indices well above 100. This reflects their disproportionately high appeal among 18-34-year-olds.

The six video activities are clustered at the very top of the chart, along with such non-video activities requiring skill as pinball, sports betting, commercial promotional skill contests, and legal casino blackjack played at a table. In fact, nine of the top ten activities among the 18-34-year-olds require skill. None of the 12 activities with indices below 100 among 18-to-34-year-olds require skill.

One important variation of video machines is the proposed electronic video Player-Activated Lottery Machine (PALM) for state lotteries. It was described to our survey respondents during the period when the issue of video lotteries was being publicly debated in New Jersey as follows:

> *"A new lottery game played on a video machine may soon be available. Here's how it would work: You would put your money into the machine and play a game involving no skill where you could win a lottery prize. How likely is it you would play this kind of lottery machine?"*

Likely video lottery players have an index of participation of 127 among 18-34-year-olds.**

The very highest index (182) among 18-34-year-olds is associated with coin-operated video amusement games outside the home. Pinball is second.

Third place is occupied by illegal "gray area" video machines. "Gray area" machines are coin-operated video machines which allow the player to win unplayably huge numbers of credits towards free plays (e.g., 1,000 free plays). The games are almost always video poker or video blackjack, and the machines are typically found in bars and fraternal organizations and clubs.

"Gray area" video machines are characterized by a "knock off" button (often located behind the bar and operable by the bartender) which allows the accumulated credits won to be zeroed out ("knocked off") in exchange for a cash payment equal to the value of the free plays won.

Progressive slot machines in Atlantic City have a considerably higher index among 18-34 year-olds than conventional slot machines. Clearly, large jackpots have considerable appeal to this age group.

There is, of course, nothing "gray" about "gray area" machines. They are illegal gambling devices almost invariably accompanied by skimming, payoffs to local public officials, infiltration by organized crime, and all the other predictable abuses associated with uncontrolled gambling. Nonetheless, "gray area" video machines are extremely popular and, in fact, appear in Table 2 adjacent to their highly regulated and state-controlled counterparts - namely, legal casino video poker slot machines and legal casino video blackjack slot machines.

Note that blackjack appears in three of the top 10 positions in Table 2 and in its three different guises - legal casino blackjack played at a table, legal casino video blackjack slot machines, and illegal "gray area" video blackjack machines.

Another interesting observation in Table 2 is that progressive slot machines in Atlantic City, (i.e., machines that offer large cash prizes which accumulate progressively to very large amounts such as $100,000 to $1,000,000 and more) have a considerably higher index among 18-34-year-olds than conventional slot machines (i.e., essentially the same machines offering more mundane jackpots such as $100 or $500). Clearly, large prizes have considerable appeal to this age group.

Table 2 is especially important not only because 18-34-year-olds represent a significant percentage of th population as a whole (i.e., around 40 percent), but because they represent the future. Ignoring any group representing 40 percent of the market is a mistake; however, ignoring this particular group is a potential deathknell. The five existing products of the state-operated lottery industry (which are clustered at the bottom of Table 2) share the same leaky demographic lifeboat as Jello, A&P Stores, and Campbell's Chicken Noodle Soup-namely, their customers are dying.

The Better-Educated

Table 3 presents the indices for those with one or more years of higher education. Clustered near the bottom of this table are five existing state lottery products, along with such ac-

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*******See also "The Revenue-Raising Potention of Consumer-Operated Video Lottery Game Terminals", "Public Gaming Magazine," March 1982.*

tivities as betting with a bookie, poker, bingo, Big Six and pinball. In other demographic studies we have made, state lottery products have similar low indices among the better educated in most lottery states east of the Mississippi River. In those lottery states, the index of participation is highest among those who have completed 12 years of high school (which also happens to be the national median number of years of education).

Trading stamps, cents-off coupons, and commercial promotional giveaway games (e.g., at the supermarket) are similarly female-oriented "something for nothing" type activities.

The highest indices of participation among those with one or more years of higher education are associated with legal roulette played at a casino in Atlantic City (with an index of 124), legal blackjack played at a table in Atlantic City (index of 117), video games played at home, and legal casino craps. Three of the six video activities have indices above 100. Illegal "gray area" machines have an index of 96. Legal video blackjack slot machines in Atlantic City have an index of only 94, perhaps reflecting the fact that this better-educated group plays blackjack at a table when in Atlantic City.

Men

Table 4 presents the indices of participation of men in the 32 various activities.

At the very bottom of Table 4 is bingo (with an index of 66) reflecting the fact that this game is the most female-oriented of the 32 gaming, amusement, and promotional activities. Trading stamps, cents-off coupons, and commercial promotional giveaway games (e.g., at the supermarket) are similarly female-oriented "something for nothing" type activities.

Legal video blackjack slot machines in Atlantic City casinos (index of 79), legal progressive slot machines in casinos (index of 85), conventional legal slot machines in casinos (index of 88) are also female-oriented. Legal video poker slot machines in casinos (index of 95) are also female-oriented, but much less so than blackjack machines (index of 79) or the non-video slots.

Of course, it is well known that the existing state lottery products that account for virtually all of the revenues of the state lotteries are male-oriented. As this study (and other studies we have made) shows, none of the existing state lottery products that account for virtually all of the current lottery revenues (i.e., instant games, Pick 3, Pick 4, and Pick 6) have a female orientation. A split of 60 percent male and 40 percent female is typical for those games. The index of 118 for Pick 6 (Lotto) is at the high end of the scale of masculine orientation.

Two interesting exceptions appear in Table 4. First, lottery subscriptions by mail have an index of male participation of only 92 - that is, they are female-oriented. This means that this largely ignored item in the mix of state lottery products may have significant female potential (especially if pursued using computerized targeted direct mail techniques). Secondly, the likely players of electronic video Player Activated Lottery Machines (PALMs) have an index of male participation of 97.

Clustered at the top of Table 4 are several traditional "macho" activities - betting with a bookie (index of 150), craps, sports betting with friends, blackjack at a table, roulette and pinball.

Blacks and Hispanics

Table 5 presents the index of participation of Blacks and Hispanics in the 32 activities.

At the very top of the list are Pick 4 and Pick 3 (the state lottery daily "numbers" game). Betting with bookie, skill contests, sports betting with a friend, pinball, and Pick 6 occupy the next 5 places in the table.

Roulette similarly appears at the top of Table 8 (persons from households with incomes of $35,000 or more) and at the bottom of Table 7 (persons with incomes below $7,500).

When the index of participation in Table 5 is below 100, then the activity involved has relatively more participation among white people. Examples range from likely players of the electronic video Player Activated Lottery Machine (with an index of 99) to the

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Megatrends in Gaming: Meeting the Future Head-On

By Dr. William Perrault

John Naisbitt's best selling book, ***Megatrends***,[1] provides predictions for tomorrow based on a dynamic analysis of what America is today. ***Megatrends*** outlines the direction in which our sophisticated technology is taking us, from a centralized, industrialized, and economically self-contained society.

Utilizing some of these trends as background, this article will discuss predictions and new directions for the gaming business.

To anticipate the future for the gaming industry, a brief discussion of the immediate past, the present and the reasons for growth of the industry is relevant.

At the beginning of 1970, there were two lottery states in the United States, with one product and annual sales of $45 million. Casinos were legalized in Nevada in 1931 and, up until 1977, Nevada was the only state where casino gambling was legalized.

> ***The future belongs to those who anticipate it. By riding societal trends, gaming will enter an era of diversification, segmentation, and expanded choice.***

Today, legal United States lotteries are operating in 17 states, the District of Columbia, Puerto Rico and the Virgin Islands. Gross sales for 1983 were in excess of $6 billion and are continuously climbing. Casino gambling was legalized in Atlantic City in 1977. Over the past ten-year period, gross revenues for the casino industry have leapt from $804 million to the $4.5 billion mark. Bingo today is legalized in 43 out of 50 states. Horse racing is legalized in 34 out of 50 states, and greyhound racing is now legal in 14 states. The dollar total generated last year from the lottery, casino and pari-mutuel industry was greater than any segment of the entertainment industry.

This phenomenal growth of the gaming industry is partially attributable to the following:

- Introduction of new product offerings that the player wants;
- Utilization of new technology with resulting success and the consequent further expansion of the systems due to the dramatically reduced costs of computer terminals and the central computer system;
- Revenue generating success and public acceptance of lotteries and casino gaming in Atlantic City.

The new product offerings presented the following features:

- Minimizing the time between placing a wager and knowledge of winning;
- Player participation;
- Expanded and dramatic prize structure offerings;
- More acceptable environment and convenience for wagering;
- Greater entertainment value.

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[1] *Megatrends-Ten New Directions Transforming Our Lives, John Naisbitt Warner Books, A Warner Communication Company.*

Who Is Playing

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players of legal casino blackjack at a table (index of 54).

White Collar

Table 6 presents the indices of participation in the 32 activities by those in white collar occupations. Except for lottery subscriptions and likely players of the electronic video Player Activated Lottery Machines (PALMs), the existing lottery products that currently generate virtually all of the state lottery revenues have indices of participation below 100 among white collar persons.

At the top of this table is legal roulette played in a casino (with an index of 149). Roulette similarly appears at the top of Table 8 (persons from households with incomes of $35,000 or more) and at the bottom of Table 7 (persons from households with incomes below $7,500). Also, it was on top in Table 3 (one or more years of higher education). This establishes roulette, which is linked in the public mind with the plush and romantic casino at Monte Carlo, as the "class" game. It is also interesting that horse racing ("the sport of kings") appears 4th in Table 6 and 6th in Table 8.

At the bottom of Table 6 are betting with a bookie (index of 50), illegal "gray area" machines (index of 75) and poker.

The Poor

Table 7 presents the indices of participation of adults with household incomes of $7,500 or less in the 32 activities.

Four out of the five existing state lottery products (instant games, Pick 6, Pick 4, and lottery subscriptions by mail) appear in this table with indices below 100, indicating that "the poor" do not disproportionately play state lottery games. The one exception (the daily Pick 3 "numbers" game) has an index just barely above 100 (i.e., 101). Thus, contrary to the myth, often voiced by bleeding heart conservatives paternalistically concerned about how the poor spend their money, the poor do not disproportionately buy state lottery tickets.***

The poor under-participate in legal casino gambling in Atlantic City and in horse racing–both of which involve the expense of transportation and relatively high minimum playing expenses.

The poor do, however, bet with bookies (index of 171), play pinball (index of 152), and play poker (index of 150). The poor are much less likely to play roulette or to pay in advance for a long-term state lottery subscription by mail (index of 57).

No doubt because they are short of income, their participation in charity or church raffles is relatively low (index of 77). Curiously, with an index of 111, they egalitarianly join along with better-educated and white collar persons (but not the affluent) in skill contests - that is, the time-consuming and highly challenging contests that award cash prizes for "telling us in 25 words or less... ."

The poor underparticipate in legal casino gambling in Atlantic City and in horse racing - both of which involve the expense of transportation and relatively high minimum playing expenses.

The Affluent

Table 8 presents the indices of participation in the 32 activities for those with household incomes of $35,000 or more.

At the top of this table are roulette and legal casino blackjack at a table (as contrasted to blackjack played on a legal casino slot machine, or an illegal "gray area" machine located outside a legal casino).

At the bottom of this table are bingo, skill contests, the state lottery's Pick 3 daily "numbers" game, Pick 4, and Pick 6 (Lotto).

Trading stamps have an index of participation among the affluent slightly above 100 and, curiously, the poor (table 7) have an index above 100 in this area also. Similarly, both the affluent (with an index of 90) and the poor (with an even smaller index of 82) underparticipate in cents-off coupons.

The affluent also have an index of participation in home video games above 100. Such games require investing in a player device with joysticks to connect to one's television set, and then also buying the relatively expensive cartridges necessary to operate the player.

Subsequent Articles

The second article in this series will present the percentages of overlap for the regular participants of the 32 activities. The third article in this series will compare the participation in the 32 activities according to a "Values and Lifestyles" (VALS) perspective. The fourth article will compare participation according to residential neighborhood types. **PG**

****See also "The Myth of the Poor Buying Lottery Tickets," "Public Gaming Magazine," January 1982.*

and key personnel have been active in the North American lottery industry for up to 14 years.

Moore Corporation Limited

Moore Corporation Limited (Toronto, Ontario) has two entities involved in the production of products for state and provincial lotteries in North America. Moore Business Forms – Canada, the country's largest designer and manufacturer of business forms and systems, currently prints Lotto 6/49 tickets for the Interprovincial Lottery Commission. Moore manufactures the forms, which are sold throughout Canada, in its Fergus, Ontario plant. Presently, the company is expanding its lottery printing capabilities. In the United States, the Response Graphics Division of Moore Business Forms, Inc. has produced over 500 million computerized instant tickets for gaming programs in six states.

Response Graphics recently began marketing the instant lottery tickets it manufactures directly to state and municipalities involved in gaming programs. Both operations provide a combination of sophisticated printing techniques and a variety of special features on the lottery/gaming products, as well as a full complement of computer services.

Scientific Games

Scientific Games introduced the first "instant lottery" game in the U.S. in May 1974 in Massachusetts. Since then, Scientific Games reports they have provided over 6 billion instant game tickets to the legal U.S. and Canadian lotteries.

"Scientific Games continually strives to be the leader in ticket design and ticket security. It was Scientific Games that produced the first secure sheet-fed ticket and it was Scientific Games that first advanced the production process to develop the totally random computer printed ticket now offered by all ticket vendors. Scientific Games continues its leadership in ticket security, even with the computer produced ticket, by offering unique security features not offered by any other supplier," said Scientific Games' chairman, John Koza.

In addition to rub-off games, Scientific Games also supplies conventional draw lottery tickets, combined instant draw tickets and pouch tickets.

Scientific Games also produced the 4th generation lottery product, the Player Activated Lottery Machine (PALM). These video lottery games can significantly increase lottery revenues from existing levels when they are properly designed. This occurs because they appeal to the consumers with above-average education, income and occupational status. These are the very consumer groups that under-participate in all existing lottery products. In these games, the player controls the action on the PALM's large 19" high resolution color video screen, using a joystick. Each PALM can accomodate four interesting and intriguing games. PALMs are reliable and durable devices capable of withstanding the use and abuse of consumers. The PALM has the general appearance of a video amusement game. No handles, reels, hoppers, coin payouts, or fast action games are involved.

Scientific Games also provides the lotteries with computer programming support services, market planning services and market research services.

Vickers & Benson Montreal

Vickers & Benson Montreal (Publicite Vickers & Benson Ltee) is a full-service advertising agency located in Montreal, Quebec, servicing an impressive list of clients regionally, nationally, and internationally. We are an autonomous agency, but are also a member of Vickers & Benson Companies Ltd. group located in Toronto, Ontario.

Vickers and Benson Montreal is one of the most successful agencies in Canada in recent years, now with annual billings that exceed $22 million. The agency has more than doubled its billings since 1979, despite tough economic times. This impressive growth has come not only from new clients, but also from existing clients—a demonstration of success and confidence.

The firm has extensive experience in Canada with lottery organizations. We are the auditors for one of the four major lottery organizations in Canada. We have assisted this lottery with system design, development of control procedures, and systems implementation.

For another of the four major lottery organizations, we reviewed the EDP function in terms of organization structure, staffing needs and development standards. For the same corporation, we studied the marketing information needs of both the corporation itself and the distributors. We also have developed an ongoing audit program to review, test and report on the integrity of the gaming systems. **PG**

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PART 2 OF A SERIES

Who Is Playing What: A Demographic Study

By Dr. John Koza

A study of the overlap in participation in 32 various gaming, amusement, and promotional activities.

Dr. John R. Koza is chairman and chief executive officer of Scientific Games, Inc. of Atlanta, Georgia, a leading supplier of games to the state lottery market. He has a B.A. and M.S. in computer and communication sciences, and an M.A. in mathematics. He received a Ph.D in computer science from the University of Michigan in 1972. In 1973, he was co-founder (with Daniel W. Bower, president) of Scientific Games. In 1974, Scientific Games introduced America's first rub-off instant state lottery game in Massachusetts.

This is the second article of a series exploring consumer participation in 32 different gaming, amusement, and promotional activities. The first article appeared in the March 1984 issue of this magazine and compared the demographics of participation in the 32 activities.

Methodology and Definitions

In the first article of this series, we discussed the methodology used by the Stanford Research Institute (SRI) and ourselves for collecting the data; we defined each of the 32 activities; we adopted a shortened description ("short title") for each activity; and we adopted a particular frequency of participation to qualify as a "regular participant" in that activity. Our definition of "regular participant" was designed to be broader than the activity's "hard core," but not so broad as to include casual participants who may have engaged in the activity only occasionally.

In many cases we had data available on the amount of money spent by consumers on the activity, so our definition of "regular participant" was further designed to account for between 85 percent and 100 percent of the money spent on the activity. In other words, when we talk about "regular participants" of an activity in this series of articles, we are talking about the consumers who spend the overwhelming bulk of the money spent in that activity. Note that in this series of articles, when we use words such as "players," "play," "participants," and "participate," we are always referring to the "regular participants" as defined in detail in the first article.

Percentage of Overlap of the 32 Activities

This second article focuses on one of the recurring topics of discussion in the public gaming field—namely, the extent to which the markets for various gaming products do, or do not, significantly overlap.

For example, what percentage of the regular participants of state lottery games also go to the race tracks for parimutuel betting? What percentage of church/charity bingo players or break-open/pull-tab players also buy state lottery tickets? What percentage of likely players of electronic video Player-Activated Lottery Machines (PALMs) are currently regular participants in the state lottery's existing rub-off instant games? Pick 3?

Marketing Horse Racing

many good horses at one place at one time," Starr says.

In the future, electronic media, including off-track betting with simulcasting, telephone betting, and more network and cable exposure will be critical to marketing racing.

USTA would like to develop pilot programs for television, and currently cable networks seem more amenable to broadcasting racing-related programming than broadcast networks, according to Ready.

Cable television is important to racing's future, says Bergstein. "Cable is the answer to getting on television," he says. "We've just got to do it."

The USTA also has a large information processing system that could be made available to news organizations. "At our Columbus (Ohio) headquarters, we have all the racing data. We're the only people in the business with a mainframe computer," Ready says.

Ali mention the need for more television coverage, and the Breeders' Cup and Breeders' Crown, as well as the Budweiser-Arlington Million, have built their marketing package around television participation.

"Cooperation with television is critical for something of that magnitude," Rivera says of the Chicago race.

Along with the increased audience and publicity racing gets from television, just the fact that networks air races lends them legitimacy in today's world, according to Rivera. "What it really tells the public is that it's okay to go to the track; you have a serious event here," he says.

Arlington Park even has its own camera crew and studio for producing features and race coverage made available to Chicago area stations. The crew gives the track the flexibility necessary, and allows the track to have a new advertisement on the air for a specific event within 24 hours if needed.

While the electronic media, the cable, the telephone and off-track betting is important to the industry overall and for the future, the emphasis still must be on the tracks, marketers say.

"The electronic media has tremendous implications for the industry," says Rivera. "But nothing is more important than marketing your sport directly. If you don't get people in the stands now, you won't have a track."

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Continued from page 30

Marketing Casinos

solicit interest from high-rollers, it is also designed to serve the broader purpose of attracting patrons from all segments and smoothing the ruffled feathers of patrons dissatisfied with something during their casino visits.

"We have a department with a head and personnel who do nothing but telephone," says Stanley. "They telephone people who haven't been here for a while and tell them we have changed. We also telephone people, based on demographics, who have never been here and invite them down."

"Also, within 48 hours of each time we receive a complaint, written or oral, the particular problem has been solved. We contact the patron invite them back and somehow reward them for notifying us. This program serves the dual purpose of letting us solve our problems in house and also saving our customers."

The goal of these and other marketing weapons is to at least maintain and ideally to fatten a casino's share of the existing market. In Atlantic City, however, marketers are eyeing that "untapped market" so often discussed and wondering if the time isn't right for "phase two" in the marketing battles. More and more the cry is being heard that it is time to band together to increase tourism to the city in general.

"Obviously, the casinos in Atlantic City often fight with each other over customers, as all businesses do," says van Hartesvelt." In relation to overall population, however, I think we should recognize that the percentage of people and families who gamble in casinos in this region is much lower than it is out West. I think the casinos should band together to market the Atlantic City experience. Once the people get near here, there is plenty of time to fight it out."

An advertising alliance, which marketers say would probably be created through the Atlantic City Casino Hotel Association, has not met with unanimous enthusiasm in the past.

"I think part of the reason we have not banded together in the past is that obviously we are still competitors. Perhaps some casinos are concerned they won't get their share; the weaker properties may worry that the money they spend may help the stronger companies," says Rosenzweig. "It's a proven fact, however, that most people who come down go to two or three casinos. So if we all act to bring people in, I'm confident that we'll get our share of business."

"One possibility would be an advertisement just mentioning the available entertainment. A toll-free "800" number could be set up for taking reservations," says van Hartesvelt. "We can beat up each other over an existing base, or we can expand the base."

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TABLE II: PERCENTAGE OF OVERLAP OF STATE LOTTERY PICK 6 (LOTTO), RUB-OFF INSTANT, PICK 4, AND PICK 3 (DAILY NUMBERS) GAME

	PICK 6	INSTANT	PICK 4	PICK 3
Pick 6	100%	40%	50%	43%
Instant	55%	100%	42%	42%
Pick 4	78%	48%	100%	68%
Pick 3	73%	51%	74%	100%

Pick 4? Pick 6 (Lotto)?

The two-page Table I presents the percentage of overlap of the 32 various gaming, amusement, and promotional activities. In Table I, each horizontal row corresponds to one activity. The percentage of New Jersey adults who are regular participants in that activity is shown in the vertical column at the far left edge of the table, along with the shortened description of the activity.

A number in any horizontal row of the table is the percentage of the regular participants in that activity who are also regular participants in the activity named at the top of the vertical column involved. For example, 21 percent of the regular participants of the state lottery's Pick 6 (Lotto) game are also regular participants of horse racing.

In Table I, we have highlighted the five state lottery products in green, and the six video activities in blue. Likely players of electronic video Player Activated Lottery Machines (PALMs) are included with the video activities in blue because, as we saw in the first article of the series, the demographics associated with the PALMs are much more closely aligned with the demographics of the players of the other five video activities than with the players of any of the five existing state lottery products.

In all, Table I has 1,024 different percentages. Naturally, 100 percent appears along the main diagonal in Table I since, for example, 100 percent of the raffle players are raffle players. Note that Table I is not like a mileage table between cities and is not symmetric. For example, a glance at the upper right corner of Table I shows that only 3 percent of the regular participants of charity/church raffles (which involve 49.6 percent of all adults) also regularly place illegal bets with a bookie, while a glance at the lower left corner shows that 58 percent of the small 2.3 percent group who regularly place illegal bets with a bookie also play raffles.

Overlap of Pick 6, Instant Game, Pick 4, and Pick 3

To further illustrate the use of Table I, Table II abstracts just 16 numbers concerning state-operated lotteries from Table I. Table II presents the percentage of overlap of the lottery's Pick 6 (Lotto) game, the rub-off instant game, the Pick 4 game, and the Pick 3 (daily numbers) game.

A glance at the bottom horizontal row of Table II shows that 73 percent of the regular participants of Pick 3 are also Pick 6 players; 74 percent are also Pick 4 players, but only 51 percent are also regular participants of the rub-off instant game. In other words, if a person plays Pick 3, he or she has about three chances in four of also playing Pick 6 or Pick 4, but only one chance in two of also playing the instant game.

Similarly, a glance at the third horizontal row of Table II shows that 78 percent of the Pick 4 players are also Pick 6 players; 68 percent are also Pick 3 players, but only 48 percent are also instant game players. In other words, if a person plays Pick 4, he or she has about three chances in four of also playing Pick 6 or Pick 3, but only one chance in two of also playing the instant. Thus, Pick 3 and Pick 4 are very similar in this regard. And as we saw in the first article, they are very similar in their demographics.

However, the Pick 6 (Lotto) game is quite different, as the top row of Table II shows. Fifty percent of Pick 6 players also play Pick 4 (the most similar of the two other electronic bet collection games played with computer terminals); 43 percent play Pick 3 (the next most similar game); and 40 percent play the instant game (the least similar game). In other words, if a person plays Pick 6, he or she has only about a one in two chance of also playing Pick 3, Pick 4, or the instant

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TABLE I: PERCENTAGE OF OVERLAP OF 32 VARIOUS GAMING, AMUSEMENT, AND PROMOTIONAL ACTIVITES

PERCENTAGE OF ADULTS PARTICIPATING	ACTIVITY	RAFFLES	CENTS-OFF COUPONS	LIKELY VIDEO LOTTERY PLAYER	SLOT MACHINE	CARDS FOR MONEY WITH FRIENDS	CASINO GAMING	"PICK 6" (LOTTO) LOTTERY	COIN-OPERATED VIDEO OUTSIDE HOME	VIDEO GAMES AT HOME	RUB-OFF INSTANT LOTTERY	BINGO	NON-SKILL CONTEST	"PICK 4" LOTTERY
49.6%	RAFFLES	100	56	54	49	39	33	27	24	21	20	23	19	18
49.3%	CENTS-OFF COUPONS	56	100	46	38	34	29	24	17	19	18	20	19	16
45.7%	LIKELY VIDEO LOTTERY PLAYER	58	50	100	43	43	37	29	33	24	25	21	17	19
33.0%	SLOT MACHINE	60	54	60	100	40	56	31	26	22	27	25	18	23
32.6%	CARDS FOR MONEY WITH FRIENDS	59	52	60	41	100	38	32	33	23	23	23	18	21
27.0%	CASINO GAMING	60	54	62	69	46	100	34	28	22	27	25	19	24
22.0%	"PICK 6" (LOTTO) LOTTERY	60	56	61	47	47	42	100	27	25	40	29	30	50
21.8%	COIN-OPERATED VIDEO OUTSIDE HOME	55	38	70	39	49	35	28	100	37	19	21	20	17
17.9%	VIDEO GAMES AT HOME	59	52	62	40	42	33	30	45	100	23	22	21	19
16.0%	RUB-OFF INSTANT LOTTERY	61	58	70	55	47	48	55	26	26	100	28	32	42
15.9%	BINGO	70	62	59	53	48	43	40	28	25	28	100	22	30
14.8%	NON-SKILL CONTEST	62	63	52	40	40	35	45	29	25	35	23	100	28
14.0%	"PICK 4" LOTTERY	63	55	63	54	48	48	78	27	25	48	34	30	100
13.4%	HORSE RACE	60	48	66	49	50	55	35	35	27	30	25	20	2.
13.1%	"PICK 3" (DAILY LOTTERY)	61	51	63	51	47	44	73	28	22	51	31	30	74
12.8%	PROGRESSIVE SLOTS	65	56	68	94	45	62	39	31	27	34	28	19	29
11.4%	BLACKJACK AT TABLE	61	46	69	41	66	67	34	47	28	24	21	17	22
10.6%	GIVEAWAY GAME	62	64	60	37	42	34	34	36	33	26	23	45	22
10.3%	PINBALL	56	39	70	41	53	31	33	72	38	27	21	22	23
9.9%	BREAK-OPEN OR PULL-TAB TICKETS	69	52	69	46	52	39	29	31	30	27	35	24	18
9.7%	SPORTS BETTING WITH FRIEND	57	41	63	41	56	40	40	42	28	31	21	24	26
9.2%	POKER	56	49	60	46	80	47	41	37	31	30	34	28	29
6.6%	TRADING STAMPS	52	78	46	35	38	23	19	12	19	20	21	19	12
4.9%	ROULETTE	64	47	76	50	55	65	44	37	26	25	21	14	36
4.9%	ILLEGAL VIDEO "GRAY MACHINES"	71	50	75	34	59	35	37	47	28	22	28	23	21
4.4%	SKILL CONTEST	66	68	52	40	42	41	29	41	30	30	30	45	24
4.3%	LOTTERY SUBSCRIPTION	62	64	66	40	35	43	48	14	17	38	28	31	38
4.1%	BIG SIX	66	54	72	72	55	66	47	32	30	34	32	22	34
3.8%	LEGAL VIDEO POKER SLOTS	56	47	71	89	60	65	42	51	36	36	32	18	28
3.5%	LEGAL VIDEO BLACKJACK SLOTS	61	53	71	91	58	64	46	41	30	38	32	15	27
3.1%	CRAPS	61	37	73	41	86	75	37	49	19	20	27	15	[illegible]
2.3%	BET WITH A BOOKIE	58	35	51	42	65	42	58	35	12	33	26	23	49

Each horizontal row corresponds to one activity. The percentage of adults who participate in that activity is shown at the far left. The numbers in the body of the table are the percentages of participants in that activity who also are participants in the activity named at the top of the vertical column involved. For example, 21% of the participants of Pick 6 (Lotto) are horse race participants.

HORSE RACE	"PICK 3" (DAILY LOTTERY)	PROGRESSIVE SLOTS	BLACKJACK AT TABLE	[illegible] GAME	PINBALL	BREAK-OPEN OR PULL-TAB TICKETS	SPORTS BETTING WITH FRIEND	POKER	TRADING STAMPS	ROULETTE	ILLEGAL VIDEO "GRAY MACHINES"	SKILL CONTEST	LOTTERY [illegible]	BIG SIX	LEGAL VIDEO POKER SLOTS	LEGAL VIDEO BLACKJACK SLOTS	CRAPS	BET WITH A BOOKIE
16	16	17	14	13	12	18	11	10	7	8	7	6	5	6	4	4	4	3
13	13	15	11	14	8	11	8	9	11	5	5	6	8	4	4	4	2	2
19	18	19	17	14	16	15	13	12	7	8	8	5	6	6	6	6	5	3
20	20	37	14	12	13	14	12	13	7	7	5	5	6	9	10	10	4	3
20	19	18	23	14	17	16	18	22	7	8	9	6	5	7	7	6	6	5
27	21	30	28	13	12	14	14	16	8	12	6	7	7	10	9	8	9	4
21	43	23	17	16	15	13	18	17	6	10	8	6	9	9	7	7	5	6
22	17	18	24	17	34	14	19	15	4	8	11	8	3	6	9	7	7	4
20	16	19	18	20	22	16	15	16	7	7	8	8	4	7	8	6	3	2
25	42	28	17	17	18	17	19	17	8	8	7	8	10	8	9	8	4	6
21	26	22	15	15	14	22	13	19	9	6	9	8	8	8	8	7	5	4
18	27	16	13	32	16	18	16	17	8	5	8	13	9	6	5	4	3	4
[illegible]	68	28	18	16	17	13	18	19	6	12	7	8	11	10	8	7	5	8
100	21	23	29	16	18	19	23	20	6	12	11	7	7	8	10	8	12	7
22	100	25	18	15	17	15	19	18	7	10	7	8	8	9	9	9	4	9
24	25	100	19	15	15	19	16	15	6	12	7	9	7	10	22	18	5	4
34	21	22	100	16	22	16	23	21	3	20	13	6	7	9	9	8	15	9
20	19	18	17	100	20	18	15	15	9	8	9	13	7	7	7	7	4	3
23	22	18	24	20	100	17	25	22	6	9	13	8	4	6	8	7	6	5
26	19	24	19	19	17	100	13	17	8	8	13	12	7	7	10	10	7	3
32	25	21	27	17	28	13	100	22	2	10	11	6	3	7	10	10	9	12
29	27	21	28	17	25	19	23	100	5	6	13	9	7	7	9	8	8	6
12	15	12	5	14	10	12	2	7	100	3	2	7	6	2	3	2	2	2
34	27	30	46	13	19	15	20	12	4	100	4	3	7	28	13	12	15	9
29	17	19	29	19	28	26	22	24	3	4	100	9	4	8	10	10	7	4
22	24	25	18	30	19	27	12	19	10	4	10	100	7	6	10	8	2	4
21	25	21	17	16	9	15	7	18	9	7	5	7	100	5	5	6	1	8
26	28	33	25	17	15	16	16	16	4	34	9	7	5	100	16	16	8	8
36	29	72	26	18	22	25	26	22	6	17	13	11	6	17	100	71	11	6
29	33	67	26	21	21	27	29	20	5	17	14	11	8	18	77	100	11	6
[illegible]	17	22	58	12	19	20	29	24	3	24	10	3	2	10	14	12	100	10
42	49	21	42	14	23	14	51	23	7	19	9	7	9	14	9	9	14	100

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lottery game.

The second row of Table II shows that 55 percent of instant players also play Pick 6, while 42 percent play Pick 4 and 42 percent play Pick 3. In other words, if a person plays the instant game, he or she has only about a one in two chance of also playing Pick 6, Pick 4, or Pick 3.

Overlap of 6 Video Activities

Table III abstracts 36 numbers relating to the six video activities from Table I and presents the percentage of overlap of the six video activities.

As we saw in the first article of this series, the regular participants of all six video activities had considerably different demographics than the regular participants of any of the existing state lottery products.

Of special interest to the lottery industry in this Table III is the high percentage (70 percent) of regular participants of coin-operated video amusement games outside the home (e.g., Pac-Man, Space Invaders, Asteroids) who characterize themselves as being likely to play electronic video Player Activated Lottery Machines (PALMs).

Similarly, 75 percent of the regular participants of the illegal video "gray area" machines consider themselves likely players of legal state-operated PALMs where, unlike the gray machines, the net proceeds of the game would go to public purposes.

TABLE III: PERCENTAGE OF OVERLAP OF 6 VIDEO ACTIVITIES

	LIKELY VIDEO LOTTERY	COIN-OP VIDEO	HOME VIDEO	ILLEGAL GRAY MACHINES	LEGAL POKER SLOTS	LEGAL BLACKJACK SLOTS
Likely Video Lottery Player	100%	33%	24%	8%	6%	6%
Coin-Operated Video Outside Home	70%	100%	37%	11%	9%	7%
Video Games At Home	62%	45%	100%	8%	8%	6%
Illegal Video "Gray Machines"	75%	47%	28%	100%	10%	10%
Legal Video Poker Slots	71%	51%	36%	13%	100%	71%
Legal Video Blackjack Slots	71%	41%	30%	14%	77%	100%

In addition, 71 percent of players of both types of legal casino video slot machines in Atlantic City (i.e., poker slots and blackjack slots) overlap with PALMs, and 62 percent of the players of video games at home also overlap with PALMs.

Note the especially high overlaps (77 percent and 71 percent) in the lower right corner of Table III indicating the high degree of correlation between the two types of legal casino video slot machines. These two types of games, in effect, are a world unto themselves at casinos. Indeed, they are typically found bunched together in one corner of the casino.

Overlap of 6 Legal Casino Games

Table IV abstracts 36 numbers relating to the six legal casino games in Atlantic City from Table I and presents the percentage of overlap of these six casino activities.

As can be seen, the slot machines in Atlantic City are another closed world unto themselves. As the first horizontal row indicates, the slot machine players tend to stick to their one favored activity. As the second horizontal row relating to the progressive slot machines shows, the players of progressive slots also play conventional slot machines heavily, but have a greater tendency than the players of conventional slot machines to also play other casino games.

As the fifth horizontal row relating to video blackjack slot machines shows, these players also play conventional slot machines and progressive slot machines heavily, but are more ecumenical in that they have a greater tendency than the players of conventional slot machines and progressive slot machines to play other casino games.

TABLE IV: PERCENTAGE OF OVERLAP OF 6 LEGAL CASINO GAMES

	SLOT MACHINE	PROGRESSIVE SLOTS	BLACKJACK AT TABLE	ROULETTE	LEGAL VIDEO BLACKJACK SLOTS	CRAPS
Slot Machine	100%	37%	14%	7%	10%	4%
Progressive Slots	94%	100%	19%	12%	18%	5%
Blackjack at Table	41%	22%	100%	20%	8%	16%
Roulette	50%	30%	46%	100%	12%	15%
Legal Video Blackjack Slots	91%	67%	26%	17%	100%	11%
Craps	41%	22%	58%	24%	12%	100%

The players of the three major "table" games at the casino (blackjack, craps, and roulette) have less restrained interests.

Individuals who play blackjack at a table have a low percentage of overlap (8 percent) with the video blackjack slot machines in the casino.

Likely Electronic Video Lottery Game Players

The 45.7 percent of the adults who characterize themselves as being "likely" to play electronic video Player Activated Lottery Machines (PALMs) is the third highest percentage in Table I. This group is of special current interest to the state lottery industry. These likely video lottery players appear in blue in the third horizontal row of Table I.

As can be seen, only 18 percent of these likely video lottery players are also regular participants of the state lottery's current Pick 3 daily numbers game; only 19 percent are regular participants of Pick 4; only 25 percent are regular participants of the rub-off instant game; and only 29 percent are regular participants of Pick 6 (Lotto).

Higher percentages of overlap (although not extremely high percentages) occur in three more "hard core" forms of gambling—namely, regular participants of Atlantic City slot machines (43 percent), playing cards for money with friends (43 percent), and the combined "casino gaming" category (37 percent).

The Parimutuel Horse Race Market

One of the many myths surrounding the public gaming industry is that the market for state-operated lotteries and the parimutuel horse race industry significantly overlap.

One aspect of this myth is the assertion that state-operated lotteries are the cause of the national decline in attendance at horse race tracks since World War II (irrespective of the fact that this decline is occurring in both non-lottery states and lottery states).

This myth is explained by a worldview which asserts that there is a small, fixed "gambling dollar" and that all the various forms of gambling are in a life-or-death struggle for a slender slice from this allegedly fixed pie.

Even though numerous demographic studies over the years (including the tables presented in the first article of the series) show that the demographic profile of horse race players does not even vaguely resemble the profile of the average state lottery player, this myth persists in many quarters.

This myth further ignores the fact that the nature of the state lottery market and the horse race market are entirely different. The lottery business involves millions of modest individual purchases (averaging $1 to $2) made by millions of consumers in their routine day-to-day shopping visits to supermarkets, newsstands, and convenience stores. In contrast, the horse race market involves only a few tens of thousands of dedicated and well-informed fans who make a time-consuming, relatively long, special trip to a race track, and then spend many hours on a skill game, betting 10, 50 or 100 times the money spent by the typical state lottery player.

A glance at the row of Table I concerning horse racing shows that only 21 percent of the regular participants of horse racing are also regular participants of the state lottery's Pick 3 daily numbers game (which was the lottery's best seller when the data was collected). In considering the significance of this paltry overlap,

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10,000 possible combinations. Microprocessor technology, however, now makes the number of possible combinations in the millions, hundreds of millions, and even billions and trillions on one machine. This has had the advantage of allowing casinos to offer higher jackpots, and has also resulted in linking multiple machines to one progressive meter or to five or six different progressive meters.

These advantages, however, also bring questions and unresolved problems. In a sense, this new technology in the slot area has caused the casino industry to face, in my estimation, one of its biggest challenges. This challenge is reflected in the security and control needed over these microprocessor slots.

> ***Although, on the surface, the increased metering capability appears to present a distinct improvement, it can, in fact, result in just the opposite. One thing the slot manufacturers and the industry fail to recognize is the practical impact that occurs from this supposed improvement.***

The security and control challenge is far different than that posed by the former electro-mechanical machines. To explain this, let me return briefly to 1978. At that time, New Jersey had relatively little first-hand knowledge about slots, except for our studies of the manufacture and operation of slot machines, including their vulnerabilities.

Although the methods by which slots could be tampered with caused us some concern, it also gave us a sense of security. This sense of security was derived from the fact that the methods of tampering with these machines had been clearly identified over time; we knew how to prevent some tampering methods and what to look for to determine whether a machine, in fact, had been violated.

There exists a far different situation now with the microprocessor machines. Although we know some of the ways these machines can be tampered with, there is still much to be done to gain the comprehensive knowledge needed. As time passes, we are learning more and more, but the same sense of confidence and security perceived with the electro-mechanical machines does not yet exist with the microprocessors.

The security and control challenge presented by these new machines cannot be met by one casino, or by each casino acting individually. The analysis needed will require a joint effort among casinos and regulators. It will entail a comprehensive evaluation of these machines, with a view toward identifying their vulnerabilities. It will entail the development of new procedures and methods for controlling them and for inspecting them, both before and during use. It will also involve the development of new protective and preventive devices, and new procedures and analysis techniques.

When these machines were first introduced into this jurisdiction, the state recognized the problem and began to address it. For instance, a procedure for sealing the micro-chips was developed.

The chips in all of the microprocessor machines now in Atlantic City are sealed by the Division of Gaming Enforcement. Those seals are periodically checked by Commission inspectors on the casino floors to assure they have not been tampered with.

If any evidence of tampering exists, the machines are immediately closed and sealed for further examination. This procedure has been developed in response to this new technology and provides a degree of security. However, it does not provide the perfect solution to all of our concerns. There is much more that has to be done in this area.

Aside from the security concerns, there are other questions and problems that have arisen from new slot technology. One aspect of slot operations that has been substantially affected is the variety and types of information that can be recorded or metered by these machines.

With the electro-mechanical machines, the meters were fairly standard. There were generally five or six meters on the machines recording standard items such as coins in, coins out, drop, and manual jackpots. The slot manufacturers, however, began to realize that this new microprocessor technology gave them the ability to record much more information in different ways.

These machines now have meters recording data that it was simply not feasible to record in the past. We now see machines with credit meters, credits played meters, handle pull meters, meters that record one-bar jackpots, two-bar jackpots, three-bar jackpots, one-coin meters, three-coin meters, five-coin meters, meters that record transactions occurring when the door is open, accounting sets of meters and operational sets of meters.

Although, on the surface, this increased metering capability appears to present a distinct improvement, it can, in fact, result in just the opposite. One thing the slot manufacturers and

Who Is Playing

Continued from page 41

recall that our definition of a "regular participant" of horse racing subsumed 92 percent of the money spent and our definition of "regular participant" of Pick 3 subsumed 91 percent of the money.

Similarly, only 23 percent of the horse race players are also Pick 4 players; only 30 percent of the horse race players are players of the state lottery's rub-off instant game; and only 35 percent of the horse race players are also Pick 6 (Lotto) players. Recall also that the definition of "regular participant" of these latter three state lottery games subsumed 96 percent, 86 percent, and 93 percent of the money, respectively.

It is especially pertinent that these very modest percentages of overlap are being registered in a state where the parimutuel horse race industry is long established, and where the state lottery is highly successful and one of the nation's oldest.

The simple truth is that the market for the parimutuel horse race industry does not significantly overlap the market for the products of state-operated lotteries.

While state-operated lotteries do not significantly overlap with horse racing, some forms of "hard core" gambling do have much higher percentages of overlap with horse racing. For example, 55 percent of the regular participants in horse racing are "regular participants" in casino gambling (as defined herein).

Interestingly, if one looks down the vertical column labeled horse racing, one finds that the highest percentage (51 percent) is associated with craps. This indicates that 51 percent of the regular participants of craps are also regular participants of horse racing.

Overlapping of Other Combinations of Activities

With 1,024 different percentages in Table I, there are literally hundreds of different combinations of overlap percentages similar to Tables II, III, and IV that the reader can construct on his or her own.

In constructing other such combinations, one will be surprised, in many cases, by the relatively small percentage of overlap between the 32 gaming, amusement, and promotional activities. In examining such overlaps, it is helpful to keep the actual percentage of participation (found on the far left edge of Table I) in mind. In this regard, computing an index by dividing the overlap percentage found in the body of the table by the actual percentage of participation in the activity denoted by the vertical column involved is helpful.

Even though numerous demographic studies over the years show that the demographic profile of horse race players does not even vaguely resemble the profile of the average state lottery player, the myth persists.

Venn Diagram for Pick 6 (Lotto), the Instant Game, and Pick 3

Table V is a Venn diagram presenting the overlap of the state lottery's Pick 6 (Lotto) game, the rub-off instant game, and the Pick 3 daily numbers game.

A Venn diagram is a method for graphically presenting the overlap of three different sets using three overlapping circles. In our Venn diagram, we have used the three primary colors (yellow, red, and blue) to highlight the three lottery products involved in the table. Lotto is shown in yellow; the instant game is shown in red, and Pick 3 is shown in blue.

The pure primary colors are used to color the areas representing the adults who are regular participants in one, and only one, of the three activities. Thus, the 8.8 percent of adults who are regular participants only in Pick 6 (Lotto) are colored yellow; the 5.7 percent who are only instant game players are colored red; and the 2.0 percent who are only Pick 3 players are colored blue. Thus, the primary colors indicate the exclusive players of the three games.

In this kind of colored Venn diagram, the area of overlap between any two activities is colored with the appropriate secondary color. Thus, the 3.7 percent of the adults of the state who are regular participants of both Pick 6 and the instant game (and just these two games) are colored orange, because orange is the secondary color obtained from mixing yellow and red. The 4.3 percent of the adults who are regular participants of both Pick 6 and Pick 3 are colored green, because green is the secondary color obtained by mixing yellow and blue. The 1.5 percent of the adults who are regular participants of the instant game and Pick 3 are colored purple, because purple is the secondary color obtained by mixing red and blue.

The 5.2 percent of the adults who are regular participants in all three state lottery games are colored black, because black is the color obtained by mixing the three primary colors of yellow, red, and blue when ink is used.

The adults who are not regular participants in any of the three state lottery games appear in the white area outside the area of the three overlapping circles. They account for 68.8 percent of the adults.

In making this kind of Venn diagram on paper, it is possible to illustrate only three different basic activities. Since the overlap percentages in both Table I and Table II for Pick 4 are so similar to those of Pick 3, and because the first article in this series showed that these two games are so similar demographically, we have chosen Pick 6, Pick 3, and the rub-off instant game as the three games for this Venn diagram and have deleted Pick 4. This approach cost only 22 respondents in a survey with 1,876 respondents and has virtually no effect on the percentage divisions.

Seventy-five percent of the regular participants of the illegal video "gray area" machines consider themselves likely players of legal state-operated PALMs where, unlike the gray machines, the net proceeds of the game would go to public purposes.

This particular Venn diagram (Table V) brings out a number of important points about the state lottery industry.

First of all, even though upwards of 85 percent of the adults in lottery states have played the state lottery at one time or another, the "regular participants" of the three basic state lottery products constitute 31.2 percent of the adults of the state.

It should be recalled that the frequency definition of "regular participants" used in this series of articles for these three state lottery products subsumed 93 percent, 86 percent, and 91 percent of the money raised by the three products respectively. Thus, the consumers who actually account for the overwhelming percentage of the money raised by the state lottery constitute 31.2 percent of the adults of the state (that is, about one-third of the adults.)

This one-third of adults is the effective market for existing state lottery products in New Jersey (which is, of course, a well-established lottery state). Some people might say that this percentage is surprisingly small. There is nothing small, however, about a market covering one-third of all adults. Indeed, a market of this size would be the envy of marketeers of practically any consumer product. We believe this "one-third" is important because a lack of understanding of what constitutes the effective lottery market obviously would hamper many advertising, promotion, and marketing activities undertaken by state lotteries or their advertising agencies.

Secondly, the "primary" lottery markets (i.e., the players who play precisely one of the three games) are important; the "secondary" lottery markets (i.e., the players who play precisely two of the three games) are important; and the "combined" lottery market (i.e., the 5.2 percent of the players who play all three games) are important. Each of these three must be approached in its own way.

Venn Diagram for Lottery Game Players, Likely Video Lottery Players, and Video Amusement Game Players

Table VI presents the overlap of the regular participants of any one of the three lottery games (Pick 6, Pick 3, and instant), likely players of electronic video Player Activated Lottery Machines (PALMs), and regular participants of coin-operated video amusement games outside the home (*e.g.*, Pac-Man, Space Invaders, Asteroids). Note that for purposes of this diagram, we have taken the 31.2 percent of the adults who are regular participants in any of the three lottery games and defined this combined group as "lottery" game players.

This diagram shows that the majority of the amusement game players are not currently lottery players.

It is also interesting to note that the addition of electronic video lottery games to the "lottery" market creates a distinctly larger overall market. Note that the potential market is now 57.6 percent of the adults in the state, compared to the present 31.2 percent.

Venn Diagram for Table Blackjack, Video Casino Blackjack Slots, and "Gray Area" Machines

Table VII presents the overlap of the three different forms of blackjack among our 32 activities—namely, blackjack played at a table in a legal casino, legal casino video blackjack slot machines, and illegal "gray area" video blackjack machines.

The striking thing about this Venn diagram is how little overlap there is among these three different forms of the same game. Only 0.3 percent of the adults of the state engage in all three activities, and only 0.2 percent, 0.3 percent and 1.1 percent of the adults appear in the overlap of two of these activities. Moreover, the two forms of blackjack that are most alike (that is, the two virtually identical video machines) have the least overlap (a total of only 0.5 percent of adults) indicating that the legality of gaming activities is a very important factor in determining who plays.

TABLE V

LOTTO, INSTANT, AND PICK 3 GAMES

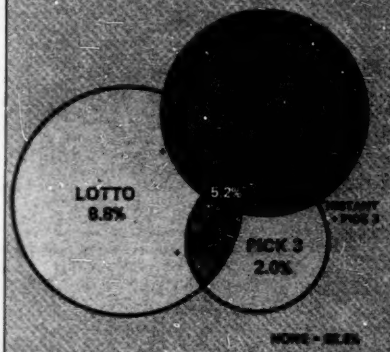


TABLE VI

LIKELY VIDEO LOTTERY PLAYERS,
PLAYERS OF SOME LOTTERY GAME
(PICK 3, PICK 6, OR INSTANT),
AND COIN-OPERATED VIDEO AMUSEMENT
GAMES OUTSIDE THE HOME

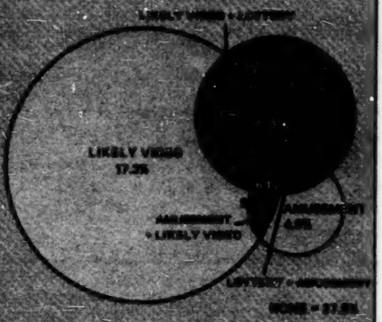


TABLE VII

TABLE BLACKJACK, VIDEO CASINO
BLACKJACK SLOTS, AND
"GRAY AREA" MACHINES

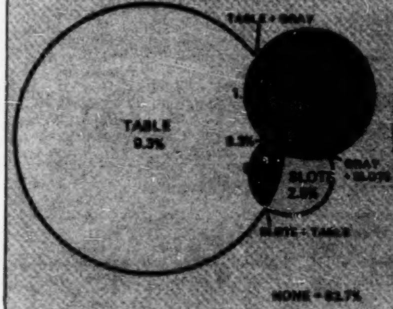
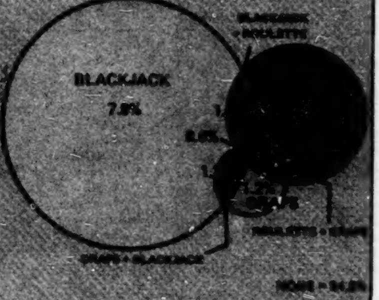


TABLE VIII

TABLE BLACKJACK, ROULETTE, AND CRAPS



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Venn Diagram for Table Blackjack, Roulette, and Craps

Table VIII presents the overlap of the three major "table" games found in the legal casinos in Atlantic City – namely, table blackjack, roulette, and craps.

The striking thing about this Venn diagram is that the majority of blackjack and roulette players play only that one particular table game, while this is not the case for craps.

The addition of electronic video lottery games to the 'lottery' market creates a distinctly larger overall market. The potential market is now 57.6 percent of the adults in the state, compared to the present 31.2 percent.

Another interesting observation is how little overlap (only 0.7 percent) there is between roulette and craps (only 0.1 percent playing the games, and 0.6 percent playing all three). Blackjack has of course, by far, the largest group of players.

Impulse Buying

The notion of "impulse buying" as it applies to lottery products deserves comment. One repeatedly hears in the lottery industry that purchasing a lottery ticket or engaging in some other gaming activity is an "impulse buying" decision.

Of course, it is an undeniable fact that sales of lottery products can be increased by placing well-designed, eye-catching, and attractive advertising material at the point-of-sale to remind the customer to make a purchase. To the extent that the overused phrase of "impulse buying" is used to reflect this mundane observation, this characterization is accurate.

However, this characterization of gaming purchase habits as "impulse buying" usually is used in the sense that consumer purchases of gaming products are irregular, random, uncorrelated with any previous purchase, and not part of a pattern of purchase. As noted, lottery purchases are often characterized as "impulse buying," as if the way to sell lottery products is to snare people at random from the swirling mass of consumers and motivate them to "impulsively" buy one single ticket on one single occasion. This latter view is often used to justify specific marketing actions taken in trying to promote the sales of gaming products.

Lottery products are much more like the newspaper, cup of coffee or cigarettes that the consumer regularly buys than the overpriced 'I visited Grand Canyon' cowboy hat that is impulsively bought at a souvenir stand.

As the above figures show, however, this characterization is totally wrong. To take just one example from the above data, 91 percent of the money generated by the Pick 3 Daily Numbers game comes from the 13 percent of the population that buys the product once a week or more often. (Actually, 64 percent of the money comes from the 4.7 percent of adults who buy the product daily). Similar percentages of 96 percent, 93 percent and 86 percent apply to Pick 4, Pick 6, and the instant game, respectively.

Moreover, as previously shown in Table V, the regular participants of Pick 6, Pick 3, and the instant game constitute 31.2 percent of the adults in the state.

The overwhelming percentage of money raised from all lottery products (as with the vast majority of other consumer products) is raised from regular, loyal, "repeat" customers. It is lucky for the lottery industry that is the case. If it were not so, hardly any lottery tickets would ever be sold. Lottery products are very inexpensive (what else of consequence can be purchased for $.50 or $1?). The cost of the advertising necessary to generate single new sales to uncommitted non-users is inherently expensive in general and prohibitively expensive when applied to $.50 and $1 products.

In other words, lottery products are much more like the newspaper, cup of coffee, or cigarettes that the consumer regularly buys than the overpriced "I visited Grand Canyon" cowboy hat that is impulsively bought at a "tourist trap" souvenir stand.

Once one realizes that buying lottery products is not "impulse buying," combined with the reality of the inexpensive price of the products involved, one can see that the objective of advertising, promotion, and marketing in the state lottery industry should be to develop "regular participants" of the various lottery products, not casual "impulse" sales. **PG**

PART 3 OF A SERIES

Who Is Playing What

By Dr. John R. Koza

A Comparison of Participation in 32 Various Gaming, Amusement, and Promotional Activities From a Values and Lifestyles Perspective.

Dr. John R. Koza is chairman and chief executive officer of Scientific Games, Inc. of Atlanta, Georgia, a leading supplier of games to the state lottery market. He has a B.A. and M.S. in computer and communication sciences, and an M.A. in mathematics. He received a Ph.D. in computer science from the University of Michigan in 1972. In 1973, he was co-founder (with Daniel W. Bower, president) of Scientific Games. In 1974, Scientific Games introduced America's first rub-off instant state lottery game in Massachusetts.

This is the third article of a series exploring consumer participation in 32 different gaming, amusement, and promotional activities. The first article appeared in the March 1984 issue of this magazine and compared the demographics of participation in the 32 activities. The second article appeared in the April 1984 issue and presented the percentage of overlap for the regular participants in each of the 32 activities. This third article will compare the "Values and Lifestyles" of consumers who participate in the 32 activities.

Gaming, amusement, and promotional products are discretionary consumer products. People's participation in these activities is heavily dependent on their psychological acceptance of risk or aversion to risk, their psychological desire to win money (whether to change their lifestyle, as a fantasy, or for whatever other reason), their moral and religious views, and superstitious factors (such as believing in "luck").

Conventional demographic methods of market segmentation cannot alone explain consumer purchase patterns. Psychographic factors, such as the "values and lifestyles" of consumers play an important role. In pursuit of a greater understanding of these psychographic factors in consumer purchase behavior, over 130 corporations, media companies, and advertising agencies participated in an ongoing consumer research program at SRI International (formerly Stanford Research Institute) called the "Values and Lifestyles" (VALS) program.

In view of the highly psychological nature of gaming, amusement, and promotional activities, we believe that examining psychographic factors is especially pertinent to the public gaming field.

The cornerstone of SRI's VALS market segmentation program is the "VALS typology" which classifies consumers into nine different consumer "types." Consumers are classified under their type after answering a battery of carefully developed and tested attitudinal and demographic questions. The nine VALS types are, in turn, grouped into four major "groups."

Before examining the 32 various gaming, amusement, and promotional activities in light of the VALS typology, we first will briefly describe each of the nine VALS types and the four major groups. We will rely heavily, of course, on descriptions which have been prepared by SRI as part of the VALS program.

An excellent description of the VALS typology is contained in the recently published book "The Nine American Lifestyles – Who We Are And Where We Are Going" by Arnold Mitchell (MacMillan Publishing Co., 1983).

The Need-Driven Group

The first major consumer group is called "Need-Driven."

In general, Need-Driven consumers are so limited in resources (especially financial resources) that they lead lives driven more by need than by choice. Most have incomes at or below the poverty level.

> *In their purchase decisions, Outer-Directed consumers buy with an eye to appearance. In making purchase decisions, this concern about what "other people" think is often more important to these consumers than their own "inner" satisfaction from the purchase. Their spending patterns are dominated by "outer" rather than "inner" measures.*

The Need-Driven are the farthest removed from the cultural mainstream, are the least psychologically flexible, are least aware of the events of our times, and are most inclined to be depressed and withdrawn. Values center around survival, safety, security, and tradition. Such people tend to be distrustful, dependent, and unplanning.

It is estimated that about 11 percent of the national population aged 18 and over are Need-Driven consumers. This amounts to some 15 million adults.

This group is divided into two VALS types – "Survivors" and "Sustainers." There are about 4 million Survivors and 11 million Sustainers.

Survivors

The first VALS type in the Need-Driven group is the Survivors type.

Survivors are the most disadvantaged portion of American society, by reason of extreme poverty, low education, old age, and little access to the channels of upward mobility. Many, now infirm, once lived lifestyles associated with higher levels of the VALS hierarchy. Many generation-after-generation Survivors are ensnared in the so-called culture of poverty. For these people the struggle for survival is the dominant force in their lives.

Survivors tend to think of their lives and their future as a matter either of fate or luck. In any case, they do not perceive having control of it.

Since they are money-restricted, Survivor consumers tend to spend relatively little on private transportation, recreation, leisure, education, or luxuries.

Sustainers

The second VALS type in the Need-Driven group is the Sustainer type.

Sustainers are distinguished from Survivors by having a longer perspective. They wish not only to survive but to sustain – and hopefully improve – their position over time. The severe economic constraints under which they operate often make this difficult. As will be seen, their attitudes and participation in gambling activities reflect this goal.

Sustainers are a group struggling at the edge of poverty. They are better off and younger than Survivors, and many have not given up hope. Their values are very different from those of Survivors. They have advanced from the depression and hopelessness typical of Survivors to also embrace anger at the system they see as repressing them and a street-wise determination to get ahead. Many operate in the underground economy.

The Sustainer is often young. This group includes people in a variety of situations, including marginally employed young blacks, the divorced mother struggling to raise her children, and other similar "street-wise" individuals.

The Outer-Directed Group

The second major group in the VALS consumer typology is called "Outer-Directed."

Outer-Directed consumers conduct their lives in response to signals, real or fancied, from others. The consumption, activities, and attitudes of Outer-Directed people are all guided by what other people think (or what they think other people will think). These "other people" to whom Outer-Directed persons direct their efforts include other members of the family, the company, the church, the union, the club, etc.

In their purchase decisions, Outer-Directed consumers buy with an eye to appearance. In making purchase decisions, this concern about what "other people" think is often more important to these consumers than their own "inner" satisfaction from the purchase. Their spending patterns are dominated by "outer" rather than "inner" measures.

The psychological needs of Outer-Directed consumers tend to be of a sort that can be satisfied by tangible things. This is in contrast to the more physiologically oriented Need-Driven consumers and the more psychological inwardly-directed attitude characterizing Inner-Directed consumers.

Since external measures are so important to them, Outer-Directed consumers tend to buy in accord with extablished norms. Indeed, what they buy helps to establish national norms. As distinct from Need-Driven people, most Outer-Directed consumers have the resources to express many of their preferences in their buying behavior.

Outer-Directed people are the heart of contemporary mass consumer markets. They are the dominant group in America today and have been for generations.

We estimate their numbers at 68 percent of the population – around 112 million adults. This group is divided into 3 VALS types: Belongers, Emulators, and Achievers. There are approximately 63 million Belonger adults, 16 million Emulator adults, and 33 million Achiever adults. This traditional "mainstream" group is estimated to be declining as a percentage of the population.

Belongers

Belongers comprise the large, solid, comfortable, middle-class group of Americans who are the main stablilizers of society and the preservers and defenders of the moral status quo. Belongers tend to be socially conservative, conventional, nostalgic, sentimental, puritanical, and conforming. The key drive is to fit in – to belong – and not to stand out. Their world is well posted and well lit, and the road is straight and narrow.

Family, church, and tradition loom large among Belongers. Belongers are people who know what is right, and they adhere to the rules. They are not much interested in sophistication or intellectual affairs. All the evidence suggests that Belongers lead contented, happy lives relatively little vexed by the stresses and mercurial events that swirl around them.

Belongers seek to become part of the group through their purchases. Group norms, accepted traditions, and mass movements dominate the purchase decisions and behavior of Belongers. Belongers are driving forces behind such movements as patriotic upswellings, church membership, fraternal organizations, and a myriad of other traditional Middle American activities.

Belongers comprise the large, solid, comfortable, middle class group of Americans who are the main stabilizers of society and the preservers and defenders of the moral status quo.

The need to belong is one of the most powerful forces in the marketplace. Belongers respond to advertising appeals based on popularity. Abhorrence of being different inclines Belongers to select the standard design, the established product, and the usual store.

Belongers respond to authority, be it the government, the church, the corporation, the union, or the product endorsement of a popular personality.

Belongers tend to be middle income or lower middle income. They tend to have average, or slightly below-average education. They include a disproportionate percentage of blue collar workers. They are socially conservative, as contrasted with being economically conservative. Archie Bunker is a Belonger.

Emulators

Emulators live in a wholly different world from that of Belongers. Emulators are trying to burst into the upper levels of the system – to make it big. The object of their emulation is the Achiever lifestyle. They are ambitious, upwardly mobile, status-conscious, macho, and competitive. Many see themselves as coming from the other side of the tracks. Hence, many are intensely distrustful, are angry with the way things are, and have little faith that "the system" will give them a fair shake.

The sterotype is that of the "social climber," the "young man in a hurry," and the person "on the make."

The prime characteristic of Emulators is their emulation of the buying patterns of those they consider to be richer or more successful than themselves. In as much as Emulators often have no first-hand knowledge of the purchasing patterns of the rich and successful (learning of them from such sources as Hollywood films, popular publications, gossip columns, fashion magazines, and dramatic advertisements), they often wind up buying much more conspicuously and flamboyantly than those they seek to emulate.

Emulators put their money where it shows. They spend heavily on highly visible items such as clothes, cars, or office furniture. They are attracted to the latest "in" labels and chic activities that represent the fad of the moment. In a style sense, Emulators prefer overstatement to the understatement characteristic of the purchases of people with more money.

Emulators are often young, well-educated, and have above-average incomes and white collar jobs. In addition to the "young man in a hurry," the Emulator type also includes many people in minority groups and women who have joined the work force and are pursuing a career.

Achievers

Achievers are the pacesetters for the Emulators. They are the leaders and builders of the American dream and the good life. Achievers represent the "establishment" and are economically conservative. Achievers are the managers, administrators, and leaders in business, government, education, and politics.

The Achiever is the driving and often the driven person, oriented to success, who commonly expends much of his or her wealth, activity, and energy on the good things in life. Achievers want the best and are willing to work hard to get it. The work ethic and the Puritan ethic are central to the Achiever. Achievers tend to be materialistic, hardworking, oriented to attaining success and recognition for their success, and comfort-loving.

Estimates indicate that 22 percent of Americans are Achievers. Their numbers make them the second largest subgroup (after Belongers) in the VALS typology.

Achievers are, in the main, traditional buyers. They are, however, willing to experiment in the direction of new and improved products, especially technologically based products.

Greater affluence is, of course, correlated with greater age. Consequently, the Achiever type tends to be older than average. And, of course, Achievers have above-average educational levels. Achievers, while economically conservative, can be less conservative and easy-going on social issues. In this sense, they are the mirror image of the Belonger.

The Inner-Directed Group

Unlike the large traditional Outer-Directed group and the impoverished Need-Driven group, the Inner-Directed is the *only growing group* in the VALS typology.

Inner-Directed consumers are primarily concerned with their own inner satisfaction. They buy things and do things that give themselves satisfaction and pleasure, without regard to what other people may think about their actions.

Inner-Directed people are individualistic, person-centered, self-expressive, and impassioned. They will state and hold their opinions regardless of what "others" think, and they will "do their own thing."

The Inner-Directed group has developed since World War II and reflects a new kind of consumer.

This group is divided into three VALS types – I-Am-Me, Experientials, and Societally Conscious. There are approximately 32 million Inner-Directed adults (about 19 percent of the population) including 5 million I-Am-Me's, 8 million Experientials, and 19 million Societally Conscious consumers.

I-Am-Me

The I-Am-Me consumer is fiercely individualistic, insisting on buying what appeals to his or her whims – and the whims are made of iron. Such consumers are emphatic in buying things avant-garde, funky, far-out, classic, nostalgic, etc. Typically the result is distinctly show-off.

The I-Am-Me type is a transitional type that is often an early stage in the development of inward-oriented living. As such, it is a stage through which many pass but in which few linger.

I-Am-Me consumers loom large in many of the "far out" fringe markets, especially those of a faddish type. Like Emulators, they spend much of their money on noticeable items.

I-Am-Me consumers are worth watching because I-Am-Me tastes sometimes spawn ideas or products that subsequently spread to the rest of the society.

The I-Am-Me consumers are young. Many are single. Many are students or just starting on their first job.

It is interesting to note that many I-Am-Me's are the children of Achievers.

Experiential

An important emerging lifestyle pattern is the Experiential type. The Experiential is the person who avidly seeks direct experience, intense personal relationships, deep involvement, and a rich inner life. These kinds of people are leaders in many avant-garde movements. They are active in a wide range of participatory, experience-rich activities and pursuits.

Experiential consumers are strongly person-centered, often a bit intellectual, frequently mystical, sometimes esthetically inclined, and usually highly active. Sensuality and hedonism loom large. The core drive is for direct, often unusual, experience. They tend to welcome the new and different. Distinctly "right-brained," these people are intuitive, alert to nuance, and more accepting than most people of events with no logical explanation.

The key to the buying habits of Experiential consumers is their preference for "process over product." What is most important is the act and experience of doing something – the thrill or joy of the moment – rather than the tangible product or ownership per se. They are active in such sports as hang-gliding, backpacking, rock climbing, cross-country skiing, and scuba diving. At home they indulge' their taste for direct participation via winemaking, gardening, crafts, home remodeling, and a host of other do-it-yourself activities.

Societally Conscious

Societally Conscious consumers are people acutely aware of societal issues. They are imbued with a "spaceship earth" philosophy, and are adamant about living in a socially responsible" way. These people are often active in consumer and environmental movements. Many are engaged in politics, volunteer work, and other forms of social participation. They are mission-oriented and are out to change the world.

A: SURVIVORS

Activity	Index
Pick 3 (Daily Lottery)	261
Trading Stamps	221
Bingo	183
Lottery Subscription	169
Pick 4 Lottery	139
Legal Video Blackjack Slots	138
Sports Betting with Friend	125
Giveaway Games	115
Rub-Off Instant Lottery	106
Atlantic City Casino Gaming	99
Break-Open or Pull Tab Tickets	98
Slot Machines	96
Cents-Off Coupons	94
Poker	79
Pick 6 (Lotto) Lottery	66
Non-Skill Contest	65
Legal Video Poker Slots	63
Likely Video Lottery Players	58
Progressive Slots	57
Skill Contest	55
Horse Races	54
Cards for Money with Friends	52
Roulette	49
Raffles	49
Blackjack at Table	43
Video Games at Home	27
Pinball	23
Coin-Operated Video Outside Home	0
Craps	0
Big Six	0
Illegal Video Gray Machines	0
Bet with a Bookie	0

B: SUSTAINERS

Activity	Index
Bet with a Bookie	343
Legal Video Poker Slots	263
Pinball	217
Sports Betting with Friend	196
Pick 4 Lottery	184
Illegal Video Gray Machines	183
Pick 6 (Lotto) Lottery	178
Non-Skill Contest	174
Poker	159
Legal Video Blackjack Slots	159
Horse Races	158
Progressive Slots	157
Cards for Money with Friends	155
Coin-Operated Video Outside Home	154
Rub-Off Instant Lottery	154
Pick 3 (Daily Lottery)	154
Bingo	148
Break-Open or Pull Tab Tickets	147
Craps	142
Big Six	138
Giveaway Games	137
Video Games at Home	125
Likely Video Lottery Players	125
Slot Machines	112
Raffles	111
Atlantic City Casino Gaming	103
Trading Stamps	102
Cents-Off Coupons	100
Blackjack at Table	99
Skill Contest	76
Lottery Subscription	52
Roulette	45

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C: BELONGERS

Activity	Index
Lottery Subscription	161
Trading Stamps	138
Pick 3 (Daily Lottery)	136
Bingo	136
Cents-Off Coupons	127
Pick 4 Lottery	125
Rub-Off Instant Lottery	114
Pick 6 (Lotto) Lottery	109
Slot Machines	104
Non-Skill Contest	98
Atlantic City Casino Gaming	98
Big Six	98
Raffles	97
Poker	95
Progressive Slots	88
Cards for Money with Friends	85
Break-Open or Pull Tab Tickets	82
Giveaway Games	77
Likely Video Lottery Players	76
Illegal Video Gray Machines	73
Legal Video Poker Slots	72
Legal Video Blackjack Slots	68
Blackjack at Table	68
Video Games at Home	67
Horse Races	62
Bet with a Bookie	61
Skill Contest	54
Roulette	48
Coin-Operated Video Outside Home	39
Craps	38
Pinball	38
Sports Betting with a Friend	35

D: EMULATORS

Activity	Index
Pinball	205
Sports Betting with Friend	192
Big Six	166
Poker	163
Legal Video Blackjack Slots	162
Coin-Operated Video Outside Home	161
Roulette	158
Bet with a Bookie	158
Video Games at Home	156
Pick 3 (Daily Lottery)	150
Pick 6 (Lotto) Lottery	148
Illegal Video Gray Machines	147
Pick 4 Lottery	144
Likely Video Lottery Players	141
Progressive Slots	137
Legal Video Poker Slots	135
Blackjack at Table	132
Break-Open or Pull Tab Tickets	130
Rub-Off Instant Lottery	129
Giveaway Games	127
Horse Races	127
Slot Machines	122
Non-Skill Contest	118
Cards for Money with Friends	117
Craps	115
Bingo	110
Atlantic City Casino Gaming	109
Skill Contest	105
Raffles	97
Cents-Off Coupons	90
Lottery Subscription	84
Trading Stamps	47

Philosophically, the Societally Conscious consumer supports products that are functional, healthful, nonpolluting, durable, repairable, recyclable, made from renewable raw materials, energy-cheap to produce, authentic, and esthetically pleasing. Some such consumers take their nonconsumerist lifestyle so seriously that they rate products and manufacturers and buy accordingly. Some embrace a lifestyle of "voluntary simplicity."

Of course, by no means are all Societally Conscious consumers consistently conscientious. For example, a family might opt for small cars, commuting by bicycle, and "natural" food while making little attempt to be frugal and conserving in their clothing purchases or expensive world-wide travel.

> *The societally conscious consumer supports products that are functional, healthful, non-polluting, durable, repairable, recyclable, made from renewable raw materials, and authentic.*

The Integrated Group

The final group in the typology consists of the Integrated consumers. Integrated consumers typically combine many of the attributes and attitudes of Achievers and the Societally Conscious. They are pschologically mature, tolerant, understanding, flexible, and able to see "the big picture." They are a very tiny part of the population (perhaps one percent), and are not directly classifiable by the current VAL's classification system. Hence, they are omitted from this study.

Methodology and Definitions

In the first article of this series, we discussed the methodology used by the SRI International and ourselves for collecting the data for this study. We defined each of the 32 gaming, amusement, and promotional activities. We adopted a shortened description ("short title") for each activity, and we adopted a particular frequency of participation for qualifying as a "regular participant" in that activity.

Our definition of "regular participant" was designed to be broader than the activity's "hard core," but not so broad as to include casual participants who may have engaged in the activity occasionally. In many cases, because we had data available on the amount of money spent by consumers on the activity, our definition of "regular participant" was further designed to account for between 85 percent and 100 percent of the money spent on the activity. In other words, when we talk about "regular participants" of an activity in this series of articles, we are talking about the consumers who spend the overwhelming bulk of the money spent in that activity. Note that in this series of articles, when we use words such as "Players," "Play," "Participants," and "Participate," we are always referring to the "Regular Participants" as defined in detail in the first article.

We will now examine participation in the 32 activities by VALS type. As will be quickly seen, participation in the 32 activities varies dramatically from VALS type to VALS type in a way that is closely and plausibly linked to the description of the VALS type. Because of this, VALS represents a very important tool for gaining insight into the public gaming market and, ultimately, using this insight to increase sales and net revenues. Because the VALS typology produces similar results in many different fields of marketing, it is one of the most powerful, impressive, and actionable market segmentation schemes in existence today.

Survivor Activities

Table A presents the index of regular participation among the oldish Need-Driven Survivors in the 32 different gaming, amusement and promotional activities. The state lottery's "Pick 3" daily "numbers" game has the highest index of participation (261) among Survivors for all 32 activities.

The second highest index (221) is for trading stamps – a largely passe form of sales promotion which lingers among the oldish Survivor group.

Another oldish activity, bingo, has the third highest index (183) among Survivors. Lottery subscriptions (in the slow, delayed-action lottery games), has the fourth highest index (169).

The lottery "Pick 4" game is fifth with an index of 139. This game has been previously shown to have a demographic profile that is similar to, but not quite as downscale as, the much better selling "Pick 3" game.

In contrast, "Pick 6" (lotto) is a state lottery game structured almost identically to "Pick 4," yet it has an index of only 66 among Survivors – a spread of almost 4 to 1 relative to "Pick 3."

The three player selection games are virtually identical in that the player places a bet (typically $1) with a legal state lottery game retailer by selecting three, four, or six numbers of his choice. A ticket is issued by a computer terminal (which handles all three games). The player then awaits a subsequent random drawing of three, four, and six numbers, and wins by matching his chosen numbers with the draw numbers. The difference between the three products is, of course, the difference in size of consumer benefit (the prize) offered by the product and the odds of obtaining that benefit.

Who Is Playing

A winning bet in "Pick 3" typically produces several hundred dollars (usually $500 for a $1 bet). A bet in "Pick 4" typically produces a huge prize – often a multi-million dollar jackpot. Of course, smaller prizes are associated with the more easily won bets in the state lottery environment, where all games pay out the same percentage of revenues in prizes (typically between 40 and 50 percent).

Among Survivors, winning $500 at reasonably frequent odds (1 in 1,000) is relevant to a life style based on barely meeting life's day-to-day minimal necessities associated with survival. Winning $2 million is not relevant to this person's immediate needs.

Another difference between "Pick 3" and "Pick 6" (lotto) is that lotto is the newest of the major state lottery products and has been widely offered in a convenient computerized form only since about 1980. Given the Survivor's traditional values and the lack of awareness of current events, the low index for this new game should not be surprising. "Pick 3," on the other hand, is unique among state lottery products in that it predated the modern state-operated lottery as a traditional illegal lottery game.

Although casino gambling (with its attendant travel expenses) has an index of participation below 100, it is noteworthy that once Survivors get into a casino, conventional slot machines have a considerably higher appeal (with an index of participation of 96) than their "progressive" cousins offering bigger prizes (with an index of 57). This difference in participation among Survivors in the two types of slot machines parallels the difference in their participation in the lottery's Pick 3 and Pick 6 games.

Participation among Survivors in five of our 32 activities are so infrequent that they have an index of participation of zero. These activities include such youngish activities as coin-operated video amusement games outside the home (e.g., Pac-Man) and illegal video "gray area" machines operating outside the legal casinos in Atlantic City (typically in bars).

Participation in the youngish game of pinball (with an index of 23) and the various casino "table" games (with their relatively high minimum playing costs) is also low.

In fact, legal video blackjack slot machines are the only casino activity with an index about 100 among Survivors (138). This particular form of slot machine (with a typical payout of only 1, 1½, or 2 times the amount bet) allows the player to "win" more often. This is a psychologically important fact since Survivors are society's losers and are striving for relatively modest gains to meet their immediate needs. In contrast, the cousin of the blackjack machine – the legal casino video poker slot machine offering much bigger prizes less often – has an index not even half as high (63).

Except for video blackjack, all other video activities have low indices of participation among this oldish VALS type.

Sustainer Activities

Table B presents the indices of participation in the 32 activities for Sustainers, (the second VALS type found in the Need-Driven consumer group).

A quick glance at Table B indicates that the "street-wise" Sustainers "do almost everything," 28 of the 32 activities have indices of 100 or above. The fact that Sustainers "do almost everything" reflects their desire to sustain and improve their lot in life. Gaming, amusement, and "something for nothing" promotional activities all offer a chance to accomplish this.

The only four activities with indices below 100 are roulette (a "table game" played at a casino in Atlantic City which was previously observed to have a very "high class" profile); lottery subscriptions (which require planning and paying in advance in order to participate in slow, delayed-action lottery games); skill contests (which are challenging, time-consuming, and do require creativity and skill); and legal casino blackjack played at a table (the only casino game where skill affects winning or losing). The planning and skill required of these activities do not mesh with the Sustainer's approach to the world.

Betting with a bookie (with a participation index of 343), playing legal casino poker slot machines (263), pinball (217), sports betting (196), lottery "Pick 4," illegal "gray area" video machines (183), and lottery "Pick 6" lotto (178) have especially high indices of participation among Sustainers. Of course, a touch of illegality is of no great concern to the Sustainer.

Unlike Survivors, Sustainers who visit a casino are more attracted to a progressive slot machine (paying big prizes) than the conventional slot machine. The Sustainer, unlike the Survivor, has some hope of changing his fortune.

Belonger Activities

A quick glance at Table C shows that the cornerstone of the existing state lottery business is the Belonger VALS type. All five lottery activities have indices above 100 for Belongers.

Moreover, aside from state lotteries, only four other activities out of our 32 have indices above 100 among Belongers. Only two of these four (bingo and slot machines) are gambling activities, while the remaining two are the more benign promotional activities (trading stamps and cents-off coupons). In other words, Belongers are not inherently attracted to gambling activities – a fact that is consistent with their generally conservative social attitudes. The key is the element of authority and legitimacy inherent

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Who Is Playing

Continued from page 26

in a *state*-operated lottery. If the government says "it's OK," then it's OK. Similarly, if the church say "bingo's OK," then it's OK.

Among casino games, only slot machines have an index above 100. Moreover, not all slot machines enjoy this acceptance among Belongers. Progressive slot machines (which offer prizes which "progressively" accumulate to large amounts such as $100,000 or $1 million and more), have an index of only 88. The legal casino video blackjack and poker slot machines similarly have indices below 100 among Belongers.

In addition, the index of participation in the four major lottery products among Belongers is inversely related to the top prize offered. See Figure 1.

FIGURE 1

Lottery Game	Typical Top Prize For $1 Bet	Index
Pick 3 (Daily Numbers)	$500	136
Pick 4	$5,000	125
Instant Game	Million	114
Pick 6 (Lotto)	Multi-Million	109

Another factor in the lower index for "Pick 6" lotto is that this game is relatively new to the scene. The daily numbers game has been around for decades and is "traditional." Moreover, Belongers are late adopters of new products. When Belongers finally adopt a new product, it is no longer "new." It is then the norm.

In contrast to the five lottery activities, all six video activities have indices well below 100 among Belongers. Legal casino video slot machines are well below progressive slot machines, which, as previously mentioned, are well below conventional slots.

Coin-operated video games outside the home (e.g., Pac-Man) have a minuscule index of 39 among Belongers. Belongers are still suffering from video phobia and computer phobia. This is additionally demonstrated by their reluctance to use bank ATM's (Automatic Teller Machines).

Among commercial "something for nothing" promotions, the activity requiring the most diligence (saving and filling up a book of trading stamps) has the highest index (138), and the promotional activity requiring the next most effort (saving a cents-off coupon for later in-store matching with a purchase) has the next highest index (127). In contrast, the easy-to-enter non-skill sweepstakes contest and giveaway game have indices of only 98 and 77 respectively. Apparently getting "something for nothing" is OK provided one has to work hard for it.

On the other hand, as is the case with Sustainers, the hard-to-enter skill contest (requiring above-average creativity and skill) has an index of only 54.

Lottery subscriptions have the highest index of participation among Belongers (index of 161) of any of the 32 activities. The cumbersome nuisance of arranging to buy a lottery subscription by mail is a further reflection of the "work ethic" that alleviates the residual guilt associated with gambling (even if state sanctioned). However, there is another reason for this high index.

Belongers respond well to "continuity" types of gaming and promotional activities. "Continuity" features are found in games where, for example it is necessary to laboriously collect letters on lottery ticket stubs to spell "Pennsylvania" or to save "Bonus Play" lottery promotional certificates in conjunction with buying multiple tickets in order to get an extra chance to win a prize. Another example is the commercial traffic-building "continuity" promotion where one purchases a place-setting of dishes each week at the supermarket.

The lottery subscription program (which tops Table C) appeals to the compulsive fear of being "left out" of one week's drawing. It fits into the pattern of regularity, constancy, predictability, and "continuity" that characterizes Belonger purchases. Although the total revenue generated from lottery subscriptions is currently very small in the state lottery field, this may well be a reflection on how few state lotteries have subscription programs and how few lotteries ever actively promoted this program. An opportunity certainly exists here, if pursued with sophisticated marketing techniques that effectively aim the effort at the targeted market and carefully tailor the "consumer benefit" message to the particular "values" sought by this group.

Emulator Activities

The youngish, striving Emulators resemble the Sustainers in that they too "do almost everything." As Table D shows, only four activities (trading stamps, lottery subscriptions, cents-off coupons, and raffles) have indices below 100 among Emulators. Emulators are in too big a hurry to bother saving trading stamps or coupons for use on a later visit to a store.

Lottery subscriptions (with an index of only 84) are probably too much trouble for this fast-moving, hard-driving VALS type.

Challenging activities with an entertainment component rate high with Emulators. These include pinball (205), sports betting (192), coin-operated video amusement games outside the home (161), and video games at home (156).

Emulators also actively play state lottery games – "Pick 3" (with an index of 150), "Pick 4" (index of 144), "Pick 6" (index of 148), and rub-off instant games (index of 129).

As in the case with Sustainers, progressive slot machines (which offer big prizes) have a higher index of participation among Emulators than conventional slot machines. The Belongers and Survivors exhibit the opposite relationship.

The fact that Emulators "do almost everything" reflects their desire to become successful and rich. Gaming provides a possible method of accomplishing this.

Achiever Activities

The "classy" casino table games (roulette, craps, and blackjack) and horse racing (the "sport of kings") appear at the top of Table E, which shows the indices of participation in the 32 activities among the affluent Achievers.

Legal casino machines and legal casino progressive slot machines have indices above 100, but video poker and blackjack slot machines, which are the newest and least conventional casino games, are below 100. Achievers play blackjack at a table.

Playing video games at home has an index of 111. Playing these games at home requires the purchase of a special game player and also the purchase of special game cartridges selling for anywhere from $30 to $60 or more.

As for state lotteries, all four major existing games have indices below 100 among Achievers. The rub-off instant game (with an index of 96) comes closest to 100 in this large and affluent VALS types (representing 22 percent of the adult population).

Pick 6 (lotto), with its potential multi-million dollar top prize, has an index of 94 among Achievers. As this and other surveys indicate, Achievers are indeed interested in winning prizes (provided they are big). The more downscale player selection games (which, of course, offer only small potential top prizes) have considerably lower indices – 83 for Pick 4 and 69 for Pick 3 among Achievers.

Likely players of a state lottery electronic Player-Activated Lottery Machine (PALM) have an index of 100 among achievers.

Likely players of a state lottery electronic Player-Activated Lottery Machine (PALM) have an index of 100 among Achievers. This is the only index in this study that is not actually below-average among Achievers. Obviously, state lottery products face an uphill struggle among this VALS type. However, the large number of Achievers (22 percent of the population) and their disproportionate affluence would make the effort to attract them to lottery products potentially very worthwhile.

The lowest index of participation among Achievers as shown in Table E is associated with the illegal activity of placing a bet with a bookie (index of 69). Participation in illegal "gray area" video machines is also below-average (88). It should come as no surprise that Achievers, as representatives of "The Establishment," shy away from such illegal activities.

Pinball, with its downscale connotations and its youngish player profile, similarly has a below-average index of participation among Achievers.

The Achievers, at the top of the economic pile, have several things in common with the oldish Survivors at the bottom. They participate in the time-consuming and incremental process of saving trading stamps. They pay in advance to buy long-term lottery subscriptions by mail (index of 116). They underparticipate in cents-off coupons (with indices of 96 and 94).

I-Am-Me-Activities

The Inner-Directed Group of consumers (which consists of three VALS types – I-Am-Me, Experiential, and Societally Conscious) is the only growing group of consumers in the VALS typology.

Let us first consider the I-Am-Me consumers.

The six video activities rank high in terms of participation by I-Am-Me consumers. This is illustrated by Table F. All six video activities have indices well above 100. The highest index of participation among I-Am-Me's is for coin-operated video amusement games outside the home (e.g., Pac Man) with an index of 255. This high level of participation is 5½ times the level of participation in the state lottery's Pick 4 player selection game (which has an index of only 46).

Legal video blackjack slot machines in Atlantic City and poker slots have the next highest indices – 206 and 189, respectively. Their illegal non-

E: ACHIEVERS

Activity	Index
Roulette	149
Craps	137
Horse Races	127
Blackjack at Table	122
Trading Stamps	117
Lottery Subscription	116
Raffles	116
Break-Open or Pull Tab Tickets	112
Video Games at Home	111
Slot Machines	106
Progressive Slots	106
Sports Betting with Friend	105
Non-Skill Contest	104
Casino Gaming	104
Cards for Money with Friends	102
Likely Video Lottery Players	100
Skill Contest	98
Rub-Off Instant Lottery	96
Cents-Off Coupons	96
Big Six	95
Pick 6 (Lotto) Lottery	94
Coin-Operated Video Outside Home	91
Legal Video Poker Slots	89
Illegal Video Gray Machines	88
Giveaway Game	88
Legal Video Blackjack Slots	84
Pick 4 Lottery	83
Pinball	77
Poker	74
Bingo	71
Pick 3 (Daily Lottery)	69
Bet with a Bookie	69

F: I-AM-ME

Activity	Index
Coin-Operated Video Outside Home	255
Pinball	210
Legal Video Blackjack Slots	208
Sports Betting with Friend	191
Legal Video Poker Slots	189
Giveaway Games	174
Illegal Video Gray Machines	164
Progressive Slots	150
Roulette	148
Likely Video Lottery Players	146
Cards for Money with Friends	140
Break-Open or Pull Tab Tickets	130
Blackjack at Table	127
Atlantic City Casino Gaming	119
Video Games at Home	117
Poker	105
Bet with a Bookie	105
Slot Machines	102
Craps	102
Big Six	99
Horse Races	96
Raffles	92
Skill Contest	91
Non-Skill Contest	81
Rub-Off Instant Lottery	80
Pick 6 (Lotto) Lottery	62
Bingo	60
Pick 3 (Daily Lottery)	55
Cents-Off Coupons	52
Pick 4 Lottery	46
Trading Stamps	24
Lottery Subscription	0

G: EXPERIENTIALS

Activity	Index
Craps	201
Pinball	199
Coin- Operated Video Outside Home	196
Skill Contest	179
Horse Races	171
Legal Video Poker Slots	165
Sports Betting with Friend	163
Illegal Video Gray Machines	161
Poker	155
Blackjack at Table	153
Video Games at Home	142
Likely Video Lottery Players	140
Bet with a Bookie	138
Giveaway Games	119
Cards for Money with Friends	119
Progressive Slots	117
Roulette	113
Legal Video Blackjack Slots	112
Pick 6 (Lotto) Lottery	111
Atlantic City Casino Gaming	105
Break-Open or Pull Tab Tickets	104
Slot Machines	101
Raffles	100
Rub-Off Instant Lottery	94
Bingo	89
Big Six	78
Cents-Off Coupons	70
Non-Skill Contest	69
Pick 4 Lottery	67
Pick 3 (Daily Lottery)	60
Lottery Subscription	0
Trading Stamps	0

H: SOCIETALLY CONSCIOUS

Activity	Index
Skill Contest	135
Craps	114
Raffles	106
Cents-Off Coupons	104
Video Games at Home	102
Big Six	98
Blackjack at Table	94
Giveaway Games	90
Trading Stamps	90
Non-Skill Contest	88
Atlantic City Casino Gaming	87
Cards for Money with Friends	87
Break-Open or Pull Tab Tickets	84
Likely Video Lottery Players	84
Lottery Subscription	83
Roulette	81
Legal Video Blackjack Slots	79
Coin-Operated Video Outside Home	73
Slot Machines	71
Poker	69
Progressive Slots	68
Rub-Off Instant Lottery	62
Legal Video Poker Slots	62
Bingo	62
Pick 4 Lottery	59
Horse Races	59
Sports Betting with Friend	57
Pinball	57
Pick 6 (Lotto) Lottery	54
Bet with a Bookie	52
Illegal Video Gray Machines	48
Pick 3 (Daily Lottery)	39

casino counterparts (the "gray area" machines) have an index of 164.

Potential play of electronic video Player-Activated Lottery Machines (PALMS) has an index of 146 and video games at home have an index of 117.

Pinball (with an index of 210) and sports betting with a friend (index of 191) also have very high indices of participation among I-Am-Me's.

At the casino, progressive slots are favored over conventional slot machines by a difference in indices of 150 versus 102. The higher prizes offered by the progressive slots appeal to the I-Am-Me's.

All five state lottery products have indices of participation well below 100. Lottery subscriptions, which require planning and advance payment, have an index of zero. The rub-off instant lottery game has the highest index (80) among the I-Am-Me's. Pick 6 (lotto) comes in next with an index of 62. The Pick 3 daily "numbers" game and the Pick 4 game have indices of 55 and 46, respectively. Thus, among the five existing and one proposed state lottery products, only the proposed video lottery seems to have appeal in this VALS type.

Experiential Activities

Table G presents the indices of participation by Experientials in the 32 activities.

As with the I-Am-Me, Sustainer, and Emulator types all six video activities have indices of participation above 100 among Experientials. These four VALS types then, are the video market. The proposed electronic video PALM lottery has an index of participation of 140 among Experientials.

Among the existing state lottery products, Pick 6 (lotto), with its multi-million jackpots, has an index of participation above 100 (i.e., 111). This is the only existing state lottery product that has an index above 100 for any of the three VALS types in the Inner-Directed group. Thus, Pick 6 (lotto) and PALMs must be viewed as having the greatest potential in this growing VALS type. The instant game (with an index of 94) is in third place among lottery products, with the other lottery products far behind.

FIGURE 2

VALS Type	Lottery Activities	Video Activities
Survivors	All but 1 above average	All but 1 below average
Sustainers	All above average	All above average
Belongers	All above average	All below average
Emulators	All above average	All above average
Achievers	All below average	All but 2 below average
I-Am-Me	All below average	All above average
Experientials	All but 1 below average	All above average
Societally Conscious	All below average	All below average

At the casino, Experientials; like the I-Am-Me's, Sustainers and Emulators, favor the higher prizes of the progressive slots to conventional slots. Since these four VALS types are also heavily into video activities, it can be inferred that the chance of winning a big prize appeals to video players. Of course, the chance of winning a big prize is the "consumer benefit" offered by any state lottery product.

More so than most VALS types, Experientials will try almost anything once and their lifestyle involves undertaking a vast variety of different participatory activities on a regular basis. Accordingly, the Experiential type is right behind the Sustainer and Emulator types in the number of different activities that show indices of regular participation above 100 (23 of the 32 activities).

Trading stamps and lottery subscriptions have indices of zero among Experientials. While these activities are highly participatory (in that they require a lot of activity and effort), they are hardly viewed by Experientials as an appealing kind of participation and involvement.

Societally Conscious Activities

Table H shows the indices of participation in the 32 activities among the Societally Conscious.

While the Sustainers, Emulators, and Experientials tend to "do almost everything" on a regular basis, the Societally Conscious tend to "do almost nothing." Only five of the 32 activities have indices above 100. The Societally Conscious are too busy trying to change the world to be bothered with most of these activities.

Topping the list with an index of 135 is the skill contest (which requires the creativity and skill the well-

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Viewpoint

Video Lotteries Prove Their Worth

By Robert Denz

Robert C. Denz is vice-president of lottery development for International Game Technology. From 1981 to 1983, Denz served as executive director of the New Hampshire Sweepstakes Commission.

Today, the media reports that approximately $150 billion may be illegally wagered annually on sports, with, $1 billion bet on a single event, the Super Bowl. If accurate, these figures far surpass the approximately $7 billion in yearly gross sales in legal North American lotteries. All this is occurring at the very time that many states have raised taxes, cut spending, eliminated valuable programs, and reduced services for the want of additional revenues.

Chance or risk taking on an unpredictable and uncontrollable outcome for a prize is ancient, universal, and very possibly, an ineradicable part of our fundamental makeup. This inherent desire to participate in risk taking for a prize was recognized and utilized in this country's early days, when lottery profits helped to defray the costs of roadways, bridges, college buildings and military arms. By the mid 1800s, lotteries were frequently used in lieu of additional taxes. Even the Jamestown settlement shared in lotteries held in England.

In spite of this historical data, state lotteries as we know them did not begin until March, 1964, when the first ticket was sold and dispensed by a machine in New Hampshire, amid an atmosphere of mixed feelings and emotions – from doom and gloom predictions of criminal takeover to the highest of expectations. Reflecting upon today's $7 billion yearly gross of which over $3 billion goes to state and provincial governments without a hint of criminal penetration or control and without any compromise of integrity, we see that the high expectations have been met. A concern for honesty and security has consistently characterized government run lottery operations.

While almost three dozen states have yet to take advantage of this voluntary revenue opportunity, the thousands of organizations nationwide which have recognized chance-taking as a source of painless contribution are the non-profit civic, veteran, fraternal, and religious organizations, whose social and charity gaming businesses are now estimated to approach $45.00 per capita annually. Such money represents the primary financial strength of the charitable causes and programs found in practically every town and city.

So-called "charity tickets," including Lucky 7s, Pull Tabs, Break Opens and Jar tickets are sold by non-profit organizations and account for a healthy percentage of these revenues. Many millions of these tickets are handled manually by thousands of individuals. The tickets sell for 25¢ to $1.00 and cost the charities between one and two cents each.

The real cost, however, lies in the handling, housing, and selling, not to mention record and bookkeeping costs, reconciliation and settlements and the loss of money when full deals of tickets fail to sell.

More and more government rules and regulations are requiring additional record keeping on the part of those organizations. Such error-prone, tedious, manual handling is frequently conducted by volunteers. It is the fortunate non-profit organization which has a volunteer accountant, bookkeeper or experienced administrator available to expend the required reconciliation time. Many of these same handling expenses are attendant to lottery paper ticket costs.

Video lottery systems may well be the instrument which can favorably affect the lottery states and provinces, the non-profit organizations, and the non-lottery states which are considering new revenue sources.

Recognizing that microelectronics has not only changed North America's telephone systems and business methods but is also responsible for joining telecommunications and animation in amusement and gaming equipment, video lottery games with an agent's "on-line, on-demand™" terminal represent the most attractive, cost effective and universally exciting gaming breakthrough since 1964. It is a natural technological advancement from existing games.

More than ever before, players are offered more involvement, more game choices, more bonus plays and many more instant prizes. Featuring the latest in self-

Gaming Legislation Update

Federal Legislation

HR 5097: Reid; to allow mail advertising of any state-sponsored lottery, gift enterprise, or similar scheme; referred to Judiciary and Post Office Committees.

S 1876: Laxalt; to allow advertising of state-sponsored lotteries or similar schemes through mailing; referred to Judiciary Committee 11/83; no action taken.

HR 85: Collins; to establish a national lottery, introduced 1/3/83; pending in Judicial, Post Office, and House Ways and Means Committee.

HR 193: Holt; to repeal a portion of the Internal Revenue Code which requires amounts to be withheld from certain gambling winnings; in House Ways and Means Committee.

HR 4020: Brenner; amend titles 18 and 39 to permit mailing and broadcasting of advertising concerning lotteries or similar schemes by nonprofit organizations; referred to Judiciary and Post Office committees.

HR 4566: Udall; Indian Gambling Control Act; establishes standards and regulations for gambling within an Indian reservation; Interior Committee; no action taken. **PG**

Who Is Playing

Continued from page 65

educated Societally Conscious consumers have). Craps is second with an index of 114 and Raffles (whose proceeds typically benefit a worthwhile charity or church) are third with an index of 106. Cents-off coupons have an index of 103 and video games at home have an index of 102.

At the very bottom of Table H is the state lottery's Pick 3 daily "numbers" with an index of only 39. Pick 6 (lotto) has a very low index also (54), as does Pick 4 (with an index of 59). The index for rub-off instant games is next at 62, and lottery subscriptions have an index of 83.

Except for video games at home, the video activities have indices below 100. This pattern is similar to that of the Achievers who, like Societally Conscious, enjoy typically relatively high income, affluence, and education. If there is any opportunity at all among these two affluent groups, games similar to these home video games would seem to provide it.

Conclusion

Participation in the 32 gaming, amusement, and promotional activities varies even more dramatically when viewed from the perspective of "Values And Lifestyles" (VALS) than demographics. (The subject of the first article of this series).

If one considers the six video activities and the four major state lottery games which produce the overwhelming percentage of state lottery revenues (i.e, Pick 3, Pick 4, Pick 6, and the instant game), one finds that the use of SRI's VAL typology does indeed "sort things out" in an unusually clear and dramatic way.

The tabulation in Figure 2 shows how many of the six video and four major lottery activities have above-average or below-average indices of regular participation.

Lottery activities enjoy above-average participation by four of the eight VALS types – Survivors, Sustainer, Belongers and Emulators.

Video activities receive above-average participation by four of the eight VALS types – Sustainers, Emulators, I-Am-Me's and Experientials.

Both lottery and video activities are participated in on an above average level by only two VALS types – Sustainers and Emulators – the people who "do almost everything."

In connection with the proposed electronic video Player Activated Lottery Machines (PALMs), it is important to note that two VALS types (Experientials and I-Am-Me's) currently have below-average participation in state lottery games, but above-average participation in video activities.

As can be seen, participation in the video activities and participation in the lottery activities is closely interrelated. In 12 of the 16 entries in this table, all of the activities are either above-average or below-average.

PG

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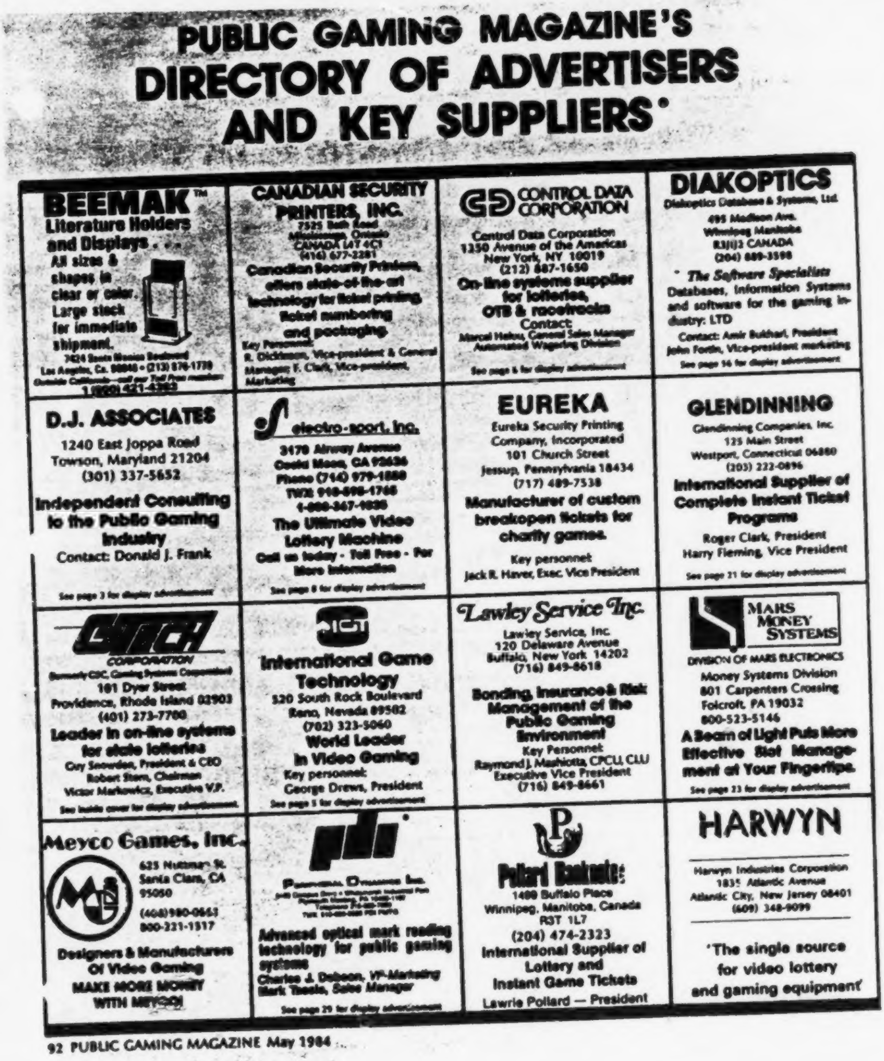

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PART 4 OF A SERIES

Who Is Playing What

By Dr. John R. Koza

A Comparison of Participation in 32 Various Gaming, Amusement, and Promotional Activities by Residential Neighborhood Types.

Dr. John R. Koza is chairman and chief executive officer of Scientific Games, Inc. of Atlanta, Georgia, a leading supplier of games to the state lottery market. He has a B.A. and M.S. in computer and communication sciences, and an M.A. in mathematics. He received a Ph.D. in computer science from the University of Michigan in 1972. In 1973, he was co-founder (with Daniel W. Bower, president) of Scientific Games. In 1974, Scientific Games introduced America's first rub-off instant state lottery game in Massachusetts.

This is the fourth article in a series exploring consumer participation in 32 different gaming, amusement, and promotional activities. The first article appeared in the March 1984 issue of this magazine and compared the demographics of participation in the 32 activities. The second article appeared in the April 1984 issue and presented percentage of overlap for the regular participants in each of the 32 activities. The third article appeared in the May 1984 issue and compared the "Values and Lifestyles" of consumers who participate in the 32 activities. This fourth article is concerned with comparing participation in the 32 activities according to residential neighborhood type.

In the United States today, the place where an individual lives typically mirrors his present place in society and life-style at the moment. People tend to cluster together in relatively homogeneous demographic and economic groups located in small neighborhood areas. These small neighborhood areas tend to contain people with similar incomes, educational levels, occupational status, racial characteristics, religious views, etc.

Individuals change much more rapidly than neighborhoods. As their lives change, people tend to "move on" to other neighborhoods and to select their new residences so as to join their peers in appropriate neighborhoods. Economics play an important role in determining each such relocation as does the individual's own sense of identifying with the people already living in the new location.

In making such moves people look for such things as the "right address" (for whatever one's status is), convenient transportation to one's place of employment, "good schools," cultural attractions, "good shopping," the "right" church, the presence of existing friends or relatives, or, perhaps, just "my kind of people." Thus, an individual's place of residence of the moment tells a great deal about the individual in a statistical sense.

For example, in their late teens or early 20's, people often live in "group housing" consisting of college dormitories, fraternities or military barracks, or perhaps in inexpensive, transient rented apartments with several roommates. Later in their 20's, they may live in smaller groups in rented apartments – both before and after marriage. By their 30's, they may have bought mortgaged homes in the

Viewpoint

The Importance Of the Illinois Test

By John Winchester

John Winchester is vice-president for lottery operations for Electro-Sport, Inc. For seven years he served as executive director of the Connecticut State Lottery.

The video lottery concept has moved a long way toward reality as a result of the Illinois Lottery test scheduled to commence August of this year.

After several frustrating years of waiting for such an experiment by a state or provincial lottery, the Illinois Lottery's vision and innovative spirit will finally allow a video lottery test to go forward and determine if all that has been claimed for the 4th generation of lottery products will in fact be realized in the marketplace.

There are some who fear that the video lottery will cannibalize existing lottery products. The results of the test will either refute or confirm this fear.

One of the most important ingredients in launching a new product is having a clear understanding of the market the product is designed to satisfy. All of the research which has been done on the video lottery concept clearly indicates the video lottery will attract a new group of consumers. This new consumer group can be characterized as above-average in education, above-average in income, white collar, evenly split between male and female, between the ages of 18 and 34 years, and not currently lottery players. Since this group seems only interested in the video lottery product, no material degree of cannibalization of revenues from other lottery games is likely to take place. The test will either prove or disprove this thesis.

According to the Illinois lottery, information accumulated during the test will be made available to the lottery industry - government and vendors alike. In fact, Michael Jones, superintendent of the Illinois State Lottery, has said he will make a progress report on Illinois' video lottery experiment at the 12th National Conference on Public Gaming scheduled for September 4-7 at The Breakers in Palm Beach, Florida. He has also indicated that even though only one supplier will provide the equipment for the test, that does not guarantee a contract for that supplier after the test has been concluded. The findings of the test, if considered successful, will be incorporated into the invitation to bid which will undoubtedly be available to all qualified bidders.

Because of the openness of the test, progress updates, dissemination of information to all interested parties, and no guarantee of a contract to the sole supplier of equipment for the test, it is important that this test be conducted with the full cooperation of all those interested in the future of the lottery industry. It is particularly important that the video equipment suppliers not taking part in this historic test do nothing to hinder the progress of the test and in fact be very supportive of it.

After all, our mission is to provide the lottery consumer with a choice of good products and thereby ensure the growth and success of the industry. If the test is conducted as planned, everyone will benefit from the findings. And, if the test is successful, the 4th generation of lottery products will likely spread as widely and as rapidly as today's other successful lottery games did in the past, benefiting states and video lottery vendors alike.

A true test, conducted under market conditions without outside interference, will ensure a fair and impartial test of a product about which very diverse opinion still exists. At the conclusion of the test we will all be in a better position to assess the strengths and weaknesses of the product and then proceed either to implement it as quickly as possible or go on to other new lottery product concepts.

The importance of a successful test of the video lottery concept cannot be overemphasized. One need look back only a few years to the successful experiment with a sports pool lottery game in Delaware, and realize that none have been tried since, to see the impact that test results can have on the adoption of a lottery game concept. PG suburbs suitable for raising children. By their 40's, they have risen in social status, "settled down" to a given occupation, "moved up" through economic strata, and perhaps already launched their own teenagers into society.

If the family's income and social standing rises, the family may move to a more affluent neighborhood. If the head of the household is transferred or his employer's plant or office moves or closes, this may also cause the family to relocate. In making such a move, the family tends to re-select a new neighborhood based on its current economic and social status and expectations.

Individuals change much more rapidly than neighborhoods. As their lives change, people tend to "move on" to other neighborhoods and to select their new residences so as to join their peers in appropriate neighborhoods. Thus, an individual's place of residence of the moment tells a great deal about the individual in a statistical sense.

In their 50's, people are typically engaged in increased community participation, as their family responsibilities decrease. During their 60's, they seek out residences suited to retirement – perhaps moving to a different part of the country to follow the sun, their friends, their children, or some other attraction.

Most consumer products have a distinct profile of residential neighborhood types where the product sells better or worse than average. The distribution of usage of few commodities, except perhaps air, is uniform and "flat" from neighborhood type to neighborhood type. For example, a list of the addresses of the buyers of expensive home computers, Mercedes automobiles, or round-the-world cruises would probably not include very many addresses in a blue collar suburb containing many recently-married, moderate income, high-school educated young working couples with young children. However, these addresses might be well-represented on a list of *Popular Mechanics* subscribers, buyers of "economy size" grocery items, buyers of children's toys, and recent buyers of what are perceived as the "necessary" new home appliances (but perhaps not yet the "luxury" appliances).

Sales of tricycles, dishwashers, dye to disguise gray hair, or new station wagons will be low among the addresses of the transient, rented multi-roommate apartments that are the usual places of residence for individuals in their late teens or early 20's. On the other hand, the addresses of consumers of movie theatre tickets, *Playboy* magazine, phonograph records, tennis shoes, or "collect" phone calls would undoubtedly show a relatively high degree of representation of individuals from these neighborhoods.

Methodology and Definitions

CACI (formerly the California Analysis Center Inc.) offers a market segmentation tool called "ACORN" based on residential neighborhood types. "ACORN" stands for "A Classification of Residential Neighborhoods."

There are many ways to "segment" markets. For example, the market can be segmented by sex, age, race, income, education or occupation. This is demographic market segmentation. We did this in the first article of the series. Similarly, the market can be segmented to "Value and Lifestyles" using psychological and attitudinal factors. We did this in the third article. ACORN is a geodemographic approach to market segmentation – that is, it combines geography (neighborhoods) and demography.

ACORN was first used in Great Britain and was then developed to apply to the United States in the mid-1970s.

While all Gaul was divided into three parts, ACORN divides the United States into 44 neighborhood "types." These 44 types are numbered 1 to 44. For convenience, similar ACORN types among the 44 types are then grouped into 13 "groups." These groups are assigned letters from A to M.

For example, "A-01" is the residential neighborhood type consisting of old, established, wealthy "blue blood" suburban areas. These elite areas contain people with high incomes, high educational levels, and white collar occupational status. Only .5 percent of the country is A-01.

"A-02" is a similar ACORN type representing wealthy suburban areas. However, A-02 neighborhoods have somewhat less income than A-01 neighborhoods and "newer money" than A-01.

Group "A" consists of neighborhood types A-01, A-02, and A-03. All three Group "A" neighborhood types are "wealthy areas" as compared to the rest of the country. However, each of three individual neighborhood types in Group "A" has different characteristics.

In New Jersey, 42 of the 44 ACORN neighborhood types occur. However, only 19 of these neighborhood types represent two percent or more of the population of the state. Moreover, two particular neighborhood types representing just 2 percent of the population each (E-19 and F-20) had unusually few respondents in our survey.

Continued on page 54 (Table on next page)

TABLE I: THE 44 ACORN RESIDENTIAL NEIGHBORHOOD TYPES AND THEIR OCCURENCE IN NEW JERSEY AND NATIONALLY

	ACORN GROUP	ACORN TYPE	DESCRIPTION	New Jersey Percent	National Percent
A	[illegible] Areas	A1	[illegible] Suburbs	[illegible]	[illegible]
		A2	Newer Suburbs	[illegible]	[illegible]
		A3	Older Families, [illegible]	[illegible]	[illegible]
B	Upper Middle Income, High Value Suburbs	B4	Newer Suburbs, Very High Income	4.1%	2.8%
		B5	Older Families, Post-War Suburbs	8.7%	2.7%
		B6	Young Families, High Mobility	2.2%	3.7%
		B7	Families with Older Children	4.4%	5.2%
		B8	Middle Income, Blue Collar	7.1%	4.6%
C	[illegible] Families in Multi-Unit Housing	C9	[illegible]	[illegible]	[illegible]
		C10	Young Adults, [illegible]	[illegible]	[illegible]
		C11	College Undergraduates	[illegible]	[illegible]
		C12	College Areas, Older Students	[illegible]	[illegible]
D	High-Density [illegible]	D13	[illegible] Areas	[illegible]	[illegible]
		D14	Older, [illegible] Areas	[illegible]	[illegible]
E	Hispanic Neighborhoods	E15	Lower-Middle Income, Blue Collar	[illegible]	[illegible]
		E16	Young Hispanics, [illegible]	[illegible]	[illegible]
		E17	Older Population, Ethnic Mix	1.9%	[illegible]
		E18	Poor Families, Very Old Housing	4.0%	[illegible]
		E19	Hispanics and Blacks; [illegible], Low Rent	2.4%	[illegible]
F	Black Neighborhoods	F20	Lower-Middle Income, Low Value House/Apt.	2.5%	3.2%
		F21	Older Population, Old Rental Housing	2.2%	2.1%
		F22	Very Poor Blacks; Low Rent Housing	6.8%	6.9%
G	[illegible] Collar	G23	Middle Income, [illegible] Housing	[illegible]	[illegible]
		G24	Young [illegible]	[illegible]	[illegible]
H	Lower-Middle Income, Rural and Small Town Areas	H25	Young Mobile Families	[illegible]	[illegible]
		H26	Farms and Older Housing	[illegible]	[illegible]
		H27	Seasonal Housing and Farms	[illegible]	[illegible]
		H28	Rural Industrial	[illegible]	[illegible]
I	Older Population Lower-Middle Income	I29	Older Families and Retirees, High Mobility	2.8%	2.4%
		I30	Older Housing	12.4%	6.8%
		I31	Small Towns	3.3%	6.5%
		I32	Eastern Europeans, Northeastern U.S.	3.8%	3.1%
		I33	Rural Retirement Areas	0.0%	2.1%
		I34	Low Value, Very Old Housing	4.0%	[illegible]
J	Mobile Homes and Seasonal	J35	Seasonal Housing	1.4%	5.0%
		J36	Mobile Home Areas	0.4%	1.7%
K	[illegible]	K37	[illegible]	[illegible]	[illegible]
		K38	Large Farms, Low-Income Farm [illegible]	[illegible]	[illegible]
L	Depressed Rural Towns, Blue Collar	L39	Low Income, Post-War Housing	0.4%	3.2%
		L40	Poor Families, High Unemployment	0.0%	2.1%
		L41	Small Farms	0.0%	2.7%
		L42	Very Low Income, Blacks and Whites, Large Families	0.0%	[illegible]
M	Special Populations	M43	Military Areas	0.2%	0.6%
		M44	Institutions	0.1%	2.1%
			TOTALS	100%	100%

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II: NEIGHBORHOOD TYPE A-02

Activity	Index
Trading Stamps	295
Lottery Subscription	139
Non-Skill Contest	116
Raffles	98
Craps	95
Cents-Off Coupons	91
Likely Video Lottery Players	90
Cards For Money with Friends	87
Break-Open or Pull Tab Tickets	83
Blackjack at Table	79
Horse Races	78
Poker	73
Video Games at Home	71
Pinball	65
Bet with a Bookie	65
Giveaway Games	63
Slot Machines	59
Legal Video Poker Slots	58
Skill Contest	51
Coin-Operated Video Outside Home	51
Pick 6 (Lotto) Lottery	51
Bingo	51
Sports Betting with Friend	46
Legal Video Blackjack Slots	42
Atlantic City Casino Gaming	33
Rub-Off Instant Lottery	32
Roulette	30
Illegal Video Gray Machines	30
Progressive Slots	29
Big Six	18
Pick 4 Lottery	16
Pick 3 (Daily) Lottery	11

III: NEIGHBORHOOD TYPE A-03

Activity	Index
Trading Stamps	314
Craps	180
Lottery Subscription	131
Illegal Video Gray Machines	115
Pinball	109
Legal Video Blackjack Slots	107
Cents-Off Coupons	107
Giveaway Games	106
Cards For Money with Friends	98
Sports Betting with Friend	97
Raffles	95
Break-Open or Pull Tab Tickets	95
Rub-Off Instant Lottery	94
Pick 3 (Daily) Lottery	86
Pick 6 (Lotto) Lottery	85
Horse Races	84
Likely Video Lottery Players	78
Coin-Operated Video Outside Home	77
Atlantic City Casino Gaming	76
Progressive Slots	73
Slot Machines	68
Pick 4 Lottery	67
Blackjack at Table	66
Non-Skill Contest	50
Legal Video Poker Slots	49
Bingo	47
Big Six	46
Video Games at Home	42
Poker	41
Skill Contest	0
Roulette	0
Bet with a Bookie	0

Who Is Playing

Continued from page 51

In order to simplify this study and maintain statistical significance after the number of respondents in our survey are divided into neighborhood types, we will limit our discussion in this article to 17 neighborhood types. Each of these 17 neighborhood types represents 2 percent or more of the population. Collectively, these 17 neighborhood types represent 80 percent of the population of the state.

Table I (page 52) shows all 44 neighborhood ACORN types and all 13 groups and their occurence in the population of New Jersey and the U.S. as a whole based on the 1980 Census.

In the first article of this series, we discussed the methodology used by SRI International and ourselves for collecting the data for this study; we defined each of the 32 gaming, amusement, and promotional activities; we adopted a shortened description ("short title") for each activity, and a particular frequency to qualify as a "regular participant."

Our definition of "regular participant" was designed to be broader than merely the activity's "hard core," but not so broad as to include casual participants who may have engaged in the activity only occasionally. In cases where we had data available on the amount of money spent by consumers on the activity, our definition of "regular participant" was further designed to account for between 85 percent and 100 percent of the money spent on the activity.

In other words, when we talk about "regular participants" of an activity in this series of articles, we are talking about the consumers who spend the overwhelming bulk of the money spent on that activity.

In short, if you are interested in "where's the beef" for any of these 32 activities, it will be found using the definitions we use here.

Note that in this series of articles, when we use words such as "Players," "Play," "Participants," and "Participate," we are always referring to the "Regular Participants" as defined in detail in the first article.

After conducting the survey, the address of each of the respondents was sent on computer tape to CACI. Using the street address, CACI determined the neighborhood type where the address was located. In CACI's ACORN system, this classification is much more refined than systems based only on the respondent's ZIP Code. This information was then merged with the respondent's other responses in the survey.

The author wishes to acknowledge the assistance of Paul Davies of CACI in this work, of Glen Stewart of Unique Photo Arts of Norcross, Georgia in making the photographs of each ACORN neighborhood type that accompany this article, and of William Behm of Scientific Games, Inc. of Norcross on other aspects of this article.

A-02: Wealthy Areas-Newer Suburbs

As previously mentioned, the old, established, very wealthy "blue blood" suburban A-01 neighborhood type represents too few people to be involved in this article. Thus, we start with the "newer money" of A-02. The A-02 neighborhood type is one of three neighborhood types in the "A" group (which is called "Wealthy Areas"). The A-02 neighborhood type represents 3 percent of the population of the state.

While not quite as affluent as the "old money" found in the established "blue blood" A-01 areas, the A-02 neighborhoods contain somewhat younger people than A-01 who tend to be middle-aged, white, and have children who have reached their teens. The proportion of professional, managerial, and other white collar occupations and college graduates is high. The housing is almost exclusively owner-occupied, single-family houses. A-02 households drive expensive cars which are sportier than the cars found in the A-01 households. Their second car is often a station wagon.

Table II (page 52) shows each of the 32 gaming, amusement and promotional activities in descending order of the indices of participation of the adult population of New Jersey living in A-02 neighborhoods who are "regular participants" in the activity, using the definition of "regular participant" from the first article of this series. In this table and all other tables in this article, we have highlighted the five state lottery activities by coloring them green, and we have highlighted the six video activities by coloring them blue. We have also highlighted in red the indices of participation of 120 and above and those of 80 and below in these tables.

> ***While not quite as affluent as the "old money" found in the established "blue blood" A-01 areas, the A-02 neighborhoods contain somewhat younger people than A-01 who tend to be middle-aged, white, and have children who have reached their teens.***

As can be seen from a glance at Table II, A-02 neighborhoods are not heavy participants in gaming, amusement, and promotional activities. Only three of the 32 activities have indices above 100. Twenty-three of the activities have indices of participation below 80 (and are thus shown in red).

Collecting trading stamps has the highest index of participation among A-02 neighborhoods. A-02 neighborhoods believe in hard work, the Puritan Ethic, and planning ahead to achieve gains in the future. In fact, that is how

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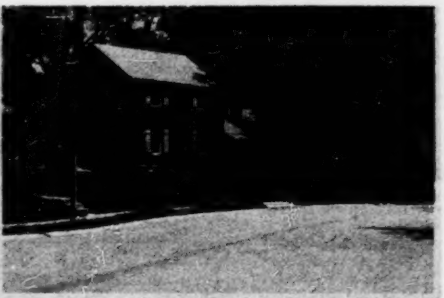
IV: NEIGHBORHOOD TYPE B-04

Activity	Index
Blackjack at Table	145
Roulette	143
Video Games at Home	131
Giveaway Games	122
Poker	102
Legal Video Blackjack Slots	100
Coin-Operated Video Outside Home	97
Likely Video Lottery Players	97
Cents-Off Coupons	97
Pinball	91
Trading Stamps	89
Cards For Money with Friends	86
Lottery Subscription	81
Non-Skill Contest	79
Skill Contest	79
Raffles	75
Slot Machines	74
Craps	74
Bingo	73
Atlantic City Casino Gaming	69
Legal Video Poker Slots	61
Break-Open or Pull Tab Tickets	59
Rub-Off Instant Lottery	58
Big Six	56
Progressive Slots	54
Horse Races	52
Pick 4 Lottery	50
Pick 6 (Lotto) Lottery	48
Illegal Video Gray Machines	48
Sports Betting with Friend	48
Pick 3 (Daily) Lottery	27
Bet with a Bookie	0



V: NEIGHBORHOOD TYPE B-05

Activity	Index
Trading S[illegible]s	160
Roulette	156
Illegal Video Gray Machines	156
Horse Races	155
Lottery Subscription	118
Cards For Money with Friends	116
Rub-Off Instant Lottery	114
Raffles	112
Atlantic City Casino Gaming	111
Likely Video Lottery Players	109
Craps	108
Cents-Off Coupons	107
Slot Machines	105
Giveaway Games	104
Pick 6 (Lotto) Lottery	102
Legal Video Poker Slots	99
Poker	97
Pick 3 (Daily) Lottery	97
Pick 4 Lottery	97
Blackjack at Table	97
Bingo	96
Progressive Slots	96
Non-Skill Contest	94
Break-Open or Pull Tab Tickets	90
Pinball	90
Coin-Operated Video Outside Home	89
Skill Contest	86
Big Six	84
Sports Betting with Friend	83
Video Games at Home	76
Legal Video Blackjack Slots	43
Bet with a Bookie	37

most occupants of this neighborhood type got to live in A-02 neighborhoods. The only gaming activity with an index above 100 is lottery subscriptions. This activity is a deliberate, planned activity where one must fill out an "application form" and pay in advance in order to participate.

A-03 neighborhoods have a greater proportion of persons over the age of 65 than do A-01 and A-02. State lottery games enjoy a distinctly better reception in the A-03 neighborhoods than in either A-01 or A-02. The rub-off instant game is the beneficiary of this older population and has participation almost equal to the statewide average.

In terms of the existing major state lottery games, A-02 neighborhoods could not care less. The Pick 3 (daily numbers) game has an index of participation of only 11. The Pick 4 lottery is not much better (at 16). The rub-off instant game is only 32. Pick 6 (Lotto) has an index of participation of only 51.

With an index of 90 for likely players, electronic video Player-Activated Lottery Machines (PALMs) represent the greatest revenue potential for state lotteries in these highly affluent A-02 neighborhoods.

A-03: Wealthy Areas - Older Families, Higher Density

A-03 neighborhoods have a greater proportion of persons over the age of 65 than do A-01 and A-02. Many are "empty nesters" with no children living at home. Most of the demographic statements about A-02 apply here; however, incomes are somewhat less than A-01 or A-02; there are more condominiums; and there are many large American-built cars.

State lottery games enjoy a distinctly better reception in the A-03 neighborhoods than in either A-01 or A-02 (Table III, page 52). The rub-off instant game is the beneficiary of this population and has participation (94) - almost equal to the statewide average. The indices for Pick 3 (86), Pick 6 (85), and Pick 4 (67) are considerably better than the indices in A-02. No doubt because of age, likely video lottery players have a lower index here (78) than in A-02 (where the index was 90).

As with A-02, the oldest activity of collecting Trading Stamps has the highest index of participation (314). This index is even higher than A-02.

The casino game of craps has the second highest index (at 180). But, as with A-02, A-03 people do not care for the casino game of roulette. Anyone designing a direct mail promotion or billboard for a casino for A-03 neighborhoods would be well-advised to depict an exciting game of craps, rather than an exciting game of roulette.

B-04: Upper-Middle Income, High Value Suburbs - New Suburbs, Very High Income

Group B consists of suburban, predominantly white, upper-middle income households. Home values are high (with very few multi-unit buildings). There are high proportions of college graduates and white collar workers. Group B is just a "cut below" Group A.

B-04 areas contain primarily young and middle-aged families with preteen and teenage children. B-04 neighborhoods have the highest concentration of households with annual income between $35,000 and $50,000 (four times the national average). Home values are high, and the housing stock is of recent vintage. There is a greater proportion of condominiums in B-04 areas than in other Group B areas.

Households in B-04 tend to be the most conspicuous consumers of all. They spend money like it is going out of style. Most of their expenditures are on children and on their homes. They have a preference for expensive imported cars and imported beer. They are the highest spenders of all on fast food and family restaurants. There is a great emphasis on physical fitness, gardening, and community events.

State lottery products have very low indices of participation in B-04 neighborhoods (see Table IV on page 55. The Pick 3 (daily numbers) game has an index of only 27. Pick 6 (lotto) has an index of only 50. The rub-off instant game has an index of only 58. However, likely players of electronic video Player Activated Lottery Machines have a promising index of 97 (i.e., almost average). Although 97 is not an above-average index, because of the affluence of B-04 areas, the revenue-raising potential here (as with A-02) is significant.

Blackjack played at a table in a casino tops the list of activities for B-04 neighborhoods (with an index of 145). Roulette is second at 143. These two particular casino activities stand in sharp contrast to the other casino activities (which have generally low indices of participation).

B-05: Upper-Middle Income, High Value Suburbs - Older Families Post-War Suburbs

The B-05 neighborhood type is somewhat older than B-04, with a much higher concentration of persons aged 55-64. Children are living away from home and at college. These neighborhoods have about three times the national average of house-

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(Tables continued on next page)

VI: NEIGHBORHOOD TYPE B-06

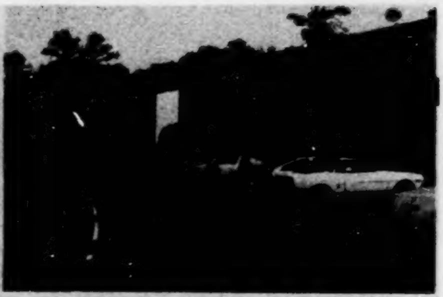
Activity	Index
Craps	155
Legal Video Poker Slots	153
Blackjack at Table	146
Video Games at Home	142
Horse Races	131
Sports Betting with Friend	131
Coin-Operated Video Outside Home	130
Progressive Slots	129
Pick 3 (Daily) Lottery	120
Illegal Video Gray Machines	119
Slot Machines	118
Rub-Off Instant Lottery	116
Pick 6 (Lotto) Lottery	115
Raffles	108
Likely Video Lottery Players	107
Cents-Off Coupons	105
Cards for Money with Friends	102
Pick 4 Lottery	97
Poker	96
Big Six	96
Atlantic City Casino Gaming	94
Break-Open or Pull Tab Tickets	89
Skill Contest	88
Pinball	85
Legal Video Blackjack Slots	83
Roulette	80
Non-Skill Contest	72
Lottery Subscription	68
Giveaway Games	64
Bingo	61
Bet with a Bookie	0
Trading Stamps	0

VII: NEIGHBORHOOD TYPE B-07

Activity	Index
Skill Contest	411
Lottery Subscription	315
Progressive Slots	212
Roulette	185
Illegal Video Gray Machines	185
Rub-Off Instant Lottery	170
Horse Races	169
Video Games at Home	152
Slot Machines	151
Coin-Operated Video Outside Home	145
Sports Betting with Friend	140
Pinball	131
Legal Video Blackjack Slots	129
Raffles	128
Likely Video Lottery Players	119
Legal Video Poker Slots	118
Atlantic City Casino Gaming	117
Pick 3 (Daily) Lottery	104
Pick 6 (Lotto) Lottery	103
Pick 4 Lottery	97
Non-Skill Contest	92
Bingo	85
Giveaway Games	85
Cents-Off Coupons	73
Cards For Money with Friends	55
Poker	49
Break-Open or Pull Tab Tickets	45
Blackjack at Table	0
Trading Stamps	0
Big Six	0
Craps	0
Bet with a Bookie	0

VIII: NEIGHBORHOOD TYPE B-08

Activity	Index
Big Six	230
Illegal Video Gray Machines	139
Giveaway Games	134
Coin-Operated Video Outside Home	131
Lottery Subscription	129
Non-Skill Contest	129
Skill Contest	126
Roulette	126
Break-Open or Pull Tab Tickets	125
Atlantic City Casino Gaming	119
Likely Video Lottery Players	118
Pick 3 (Daily) Lottery	118
Progressive Slots	116
Pick 6 (Lotto) Lottery	115
Pinball	114
Video Games at Home	114
Rub-Off Instant Lottery	112
Slot Machines	109
Blackjack at Table	109
Bet with a Bookie	108
Raffles	106
Cards For Money with Friends	104
Cents-Off Coupons	102
Pick 4 Lottery	101
Legal Video Poker Slots	97
Horse Races	97
Bingo	89
Legal Video Blackjack Slots	88
Sports Betting with Friend	83
Poker	81
Craps	79
Trading Stamps	28



IX: NEIGHBORHOOD TYPE C-10

Activity	Index
Legal Video Blackjack Slots	229
Legal Video Poker Slots	210
Craps	205
Skill Contest	182
Roulette	164
Giveaway Games	152
Bingo	151
Blackjack at Table	142
Progressive Slots	138
Poker	12[illegible]
Slot Machines	122
Big Six	119
Likely Video Lottery Players	113
Non-Skill Contest	108
Cards For Money with Friends	108
Raffles	104
Cents-Off Coupons	104
Video Games at Home	99
Illegal Video Gray Machines	98
Trading Stamps	97
Coin-Operated Video Outside Home	88
Atlantic City Casino Gaming	83
Break-Open or Pull Tab Tickets	81
Rub-Off Instant Lottery	80
Bet with a Bookie	70
Pinball	62
Horse Races	60
Pick 6 (Lotto) Lottery	58
Pick 3 (Daily) Lottery	49
Sports Betting with Friend	49
Pick 4 Lottery	48
Lottery Subscription	0

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X: NEIGHBORHOOD TYPE E-18

Activity	Index
Bet With a Bookie	576
Pick 6 (Lotto) Lottery	171
Pick 4 Lottery	148
Pick 3 (Daily) Lottery	144
Horse Races	140
Sports Betting with Friend	136
Pinball	127
Bingo	118
Progressive Slots	117
Slot Machines	114
Legal Video Blackjack Slots	107
Raffles	99
Rub-Off Instant Lottery	94
Big Six	93
Atlantic City Casino Gaming	90
Coin-Operated Video Outside Home	86
Non-Skill Contest	76
Roulette	76
Illegal Video Gray Machines	76
Cents-Off Coupons	72
Likely Video Lottery Players	70
Blackjack at Table	66
Poker	61
Craps	60
Break-Open or Pull Tab Tickets	57
Giveaway Games	53
Legal Video Poker Slots	49
Cards For Money with Friends	46
Lottery Subscription	43
Video Games at Home	42
Trading Stamps	28
Skill Contest	0

XI: NEIGHBORHOOD TYPE F-21

Activity	Index
Pick 3 (Daily) Lottery	246
Skill Contest	229
Pick 4 Lottery	229
Bet with a Bookie	221
Legal Video Blackjack Slots	192
Legal Video Poker Slots	176
Roulette	172
Craps	161
Coin-Operated Video Outside Home	139
Progressive Slots	131
Pinball	131
Non-Skill Contest	125
Big Six	125
Pick 6 (Lotto) Lottery	123
Lottery Subscription	117
Likely Video Lottery Players	107
Bingo	106
Raffles	106
Rub-Off Instant Lottery	105
Sports Betting with Friend	104
Slot Machines	102
Break-Open or Pull Tab Tickets	102
Giveaway Games	79
Cards For Money with Friends	77
Atlantic City Casino Gaming	75
Video Games at Home	75
Illegal Video Gray Machines	69
Cents-Off Coupons	65
Poker	55
Trading Stamps	51
Blackjack at Table	44
Horse Races	37

XII: NEIGHBORHOOD TYPE G-23

Activity	Index
Skill-Contest	160
Legal Video Blackjack Slots	150
Slot Machines	128
Video Games at Home	128
Poker	125
Progressive Slots	124
Atlantic City Casino Gaming	117
Coin-Operated Video Outside Home	109
Illegal Video Gray Machines	108
Cards For Money with Friends	106
Blackjack at Table	101
Giveaway Games	100
Break-Open or Pull Tab Tickets	98
Likely Video Lottery Players	94
Cents-Off Coupons	93
Legal Video Poker Slots	92
Raffles	91
Roulette	90
Rub-Off Instant Lottery	88
Bingo	88
Big Six	87
Pinball	85
Sports Betting with Friend	82
Pick 6 (Lotto) Lottery	68
Non-Skill Contest	65
Pick 4 Lottery	63
Pick 3 (Daily) Lottery	61
Craps	56
Trading Stamps	53
Horse Races	52
Bet with a Bookie	38
Lottery Subscription	20

XIII: NEIGHBORHOOD TYPE G-24

Activity	Index
Big Six	360
Sports Betting with Friend	236
Bet with a Bookie	181
Bingo	169
Pinball	161
Progressive Slots	146
Slot Machines	145
Rub-Off Instant Lottery	142
Non-Skill Contest	140
Cents-Off Coupons	139
Atlantic City Casino Gaming	138
Poker	136
Blackjack at Table	128
Illegal Video Gray Machines	127
Break-Open or Pull Tab Tickets	126
Cards For Money with Friends	121
Pick 4 Lottery	118
Likely Video Lottery Players	118
Legal Video Blackjack Slots	118
Raffles	113
Pick 3 (Daily) Lottery	111
Horse Races	108
Coin-Operated Video Outside Home	105
Giveaway Games	98
Skill Contest	94
Trading Stamps	94
Pick 6 (Lotto) Lottery	85
Roulette	85
Video Games at Home	70
Craps	66
Legal Video Poker Slots	54
Lottery Subscription	0

Who Is Playing

Continued from page 56

holds with incomes of $35,000 to $50,000. The percentages of college graduates and professional and managerial workers are well above average. High value single family homes built primarily from 1940 to 1959 predominate.

Households in B-05 are in the late stage of the family "life cycle." All of their shelter needs are already taken care of. They invest in low-risk investments such as saving certificates, eat out at family type restaurants, drive large cars, and are heavy readers of books and magazines. They are heavy consumers of beer and dark liquors. Their leisure activities include gardening, TV and travel.

Much like the improvement in lottery participation from A-02 to the more oldish A-03, there is a similar improvement between B-04 and B-05. The player selection games have moved up to indices right around 100. The rub-off instant game moved to an index of 114. (Table V, page 55)

While roulette remained at a relatively high index (156), table blackjack dropped to only 97. Illegal "gray area" machines have an index of 156 (compared with only 48 for B-04). The more oldish activity of horse racing has an index of 155 in B-05 (as compared with only 52 in B-04). No doubt reflecting the same age difference, video games at home are only 76 among B-05 (while they were 131 among B-04).

B-06: Upper-Middle Income, High Value Suburbs - Young Families, High Mobility

B-06 households lead all other ACORN segments in the percentage of population aged 30-44, and have very high concentrations of young children. The income profile of segment B-06 shows more concentration in the $25,000 to $50,000 range and less above $50,000 than is the case in B-04 and B-05. Households in these areas are very "mobile," with double the national average percentage of movers over the past five years. Houses are primarily single family, high value, and very new (45 percent built since 1975).

Households in market segment B-06 are heavy spenders on their home and on their children. They are heavily involved in sport activities, school activities, and community events. They drive mid-size American and imported cars, are avid gardeners, and drink premium beers and wine spirits. (Table VI, page 57)

> ***The particular gambling product which appeals to one neighborhood type is not necessarily the product that appeals to another neighborhood type. Moreover, the precise ACORN neighborhood type. Moreover, matters. While the 13 overall ACORN groups matter, the actual differential in appeal occurs at the neighborhood type level.***

Craps has the highest index of participation in B-06 neighborhoods, while betting with a bookie and trading stamps have indices of zero.

Bingo has a very low index (61) in this youngish area.

The four existing major lottery products all enjoy healthy indices between 155 and 120.

Like the younger B-04 types, B-06 has a high index for blackjack (146) and video games at home (142).

While legal video poker slots have a high index (153), their cousins in the casinos (i.e., the blackjack slots) have an index of 83. No doubt this is because the B-06 casino visitor is busy at the blackjack table.

B-07: Upper-Middle Income, High Value Suburbs - Families With Older Children

B-07 neighborhoods are solidly middle to upper-middle income with greater emphasis on the "middle" than in B-04, B-05, and B-06. Market segment B-07 is solidly "Middle America." They drive small and mid-size American and imported cars, and are heavy consumers of beer and fast foods. Their leisure activities are concentrated in movie going, sports activities with their children, news and sport magazine readership, and shopping.

As to state lottery products, the rub-off instant game has a high index of participation (170) in these B-07 neighborhoods. (Table VII, page 57)

B-07 neighborhoods have responded well to direct instant lottery mail promotions such as "Bonus Play" in several different lottery states.

The three player-selection games (Pick 3, Pick 4, and Pick 6) are clustered right around an index of 100.

As to casino activities, roulette has a high index (185), while the other two table games (craps and blackjack) have indices of zero. Progressive slot machines have an index of 212 and conventional slot machines have an index of 151.

Thus, B-07 neighborhoods can be said to be "instant game country" and "roulette" country. As we have already seen and will continue to see in this article, the particular gambling game makes a big difference. The particular gambling product which appeals to one neighborhood type is not necessarily the product that appeals to another neighborhood type. Moreover, the precise ACORN neighborhood type (out of 44) matters. While the 13 overall ACORN groups matter, the actual differential in appeal occurs at the neighborhood type level.

B-08: Upper-Middle Income, High Value Suburbs - Middle Income, Blue Collar

B-08 stands out in Group B with a low percentage of professionals and managers and an above average proportion of blue collar, craft and operative workers. The income profile in B-08 is very "middle income." B-08 has the lowest income in the B group. This is the highest of all ACORN segments in percentage of housing built from 1940 to 1959 (69 percent). B-08 has older families and many "empty nesters." Note the parallelism in the progression of neighborhood types in the "A" group and the "B" group.

Households in market segment B-08 are "middle america." They drive mid-size American built cars and have an affinity for country music. They tend to spend little on home furnishings and are active in leisure activities, except hunting. (Table VII, page 58)

> *B-08 stands out with a low percentage of professionals and managers and an above average proportion of blue-collar, craft, and operative workers. Likely players of electronic video Player-Activated Lottery Machines (PALMs) have an index of 118 in B-08 neighborhoods—the highest index for PALMs among any neighborhood type.*

The striking thing about B-08 in contrast to the more affluent neighborhood types in the B group is the considerably larger number of activities which have an index of participation above 100. B-08 people participate a lot more in our 21 gaming, amusement, and promotional activities. As can be seen, the line in the tables separating the activities with indices of 100 and above has progressively moved down as one progresses through the B group. In fact, the same progression exists in the A group.

Big six has the highest index in B-08 (230).

Illegal "gray area" machines have the second highest index (139).

Except for Pick 4 (with an index of 101), the existing state lottery products have indices lying between 112 and 118.

Likely players of electronic video Player-Activated Lottery Machines (PALMs) have an index of 118 in B-08 neighborhoods – the highest index for PALMs among any neighborhood type. PALMs are tied in B-08 with Pick 3 and have substantially higher indices than Pick 6, the instant game, and Pick 4.

C-10: Young Mobile Families In Multi-Unit Housing - Young Adults, Middle and Lower Middle Income

In contrast to the single family homes in Groups A and B, multi-unit, higher density housing dominates Group C. The labor force is largely white collar. Households are very "mobile" – that is, the people move a lot.

C-10 is dominated by young adults, especially aged 22-29. C-10 areas have the highest percentage of working women of all ACORN types. The income profile is middle to lower-middle, with mostly white collar workers. C-10 contains mostly medium-rise and low-rise multi-unit housing, generally with high value or high rent.

Households in market segment C-10 areas are an excellent market for fast food, beer and wine, movies, and consumer electronics products. They drive small American and Japanese made cars. Their leisure activities are concentrated in fitness classes, competitive sports, photography, and day trips to rural areas. They represent a poor market for expensive home furnishings, investments, and grocery stores. (Table IX, page 58)

In the youngish C-10 areas, legal video blackjack and poker slots are at the top of the list (with indices of 220 and 210, respectively).

The three state lottery player selection games have indices between 46 and 58, while the rub-off instant game has an index of 80. Lottery subscriptions have an index of zero in this youngish area.

Likely players of electronic video Player-Activated Lottery Machines (PALMs) have an index of 113.

Note that the existing state lottery products all have indices well below 100. Because of the 113 index, C-10 must therefore be viewed as a prosperous potential market. Because of the substantial lead over the existing state lottery products, state lotteries would seem to have the most to gain in neighborhoods such as C-10.

E-18: Hispanic Neighborhoods - Poor Families, Very Old Housing

Group E has very high proportions of Hispanics. The income and education levels, as well as home values, are very low. Generally, the population is young, with a high proportion of families with children.

While heavily Hispanic (34 percent of households), E-18 areas also contain substantial black and white populations. Young families with children predominate. Household income levels are very low, and unemployment is very high. Most of the labor force is in low-skill service or labor occupations. E-18 areas have high unemployment – twice the national average. Housing units themselves are very old, and are mostly mid-rise, multi-family structures.

Betting with a bookie has the very high index of 576 in E-18 neighborhoods. The three player selection lottery games (Pick 6, Pick 4, and Pick 3) also have high indices – 171, 148, and 144, respectively. (Table X, page 75)

On the other hand, the rub-off instant game has an index of only 94 in these areas.

Horse racing has an index of 140.

To the extent that people from E-18 neighborhoods go to casinos, progressive slot machines and conventional slot machines have indices of between 117 and 114.

Video does poorly in these disadvantaged areas. Video games at home have an index of only 42. Coin-operated video amusement games outside the home have an index of only 86. Illegal "gray area" machines have an index of only 76. Likely players of electronic video PALMs have an index of only 70.

Clearly, the state lottery already does well in E-18 with Pick 3, 4, and 6. Video lotteries will add nothing here.

F-21: Black Neighborhoods - Older Population, Old Rental Housing

Group F neighborhoods have a high percentage of blacks. These neighborhoods have low income and educational levels. The population is youngish and the housing is old and low in value.

F-21 is the most black-dominated neighborhood type (87 percent) of all ACORN types. F-21 also has the highest proportion of population over age 65 within Group F, although families with children are still a significant proportion of the population.

F-21 is a very poverty-stricken segment, with 2.5 times the national proportion of households with annual income below the poverty level. The occupational make-up is mainly low-skill, blue collar, especially in service occupations. Very old housing predominates (58 percent built before 1939). Housing is primarily in single family units and small complexes. Home values and rents are very low. (Table XI, page 75)

Pick 3 (the daily numbers game) leads all 32 activities in this black-dominated neighborhood type with an index of 426. Pick 4 has an index of 229. Pick 6 (lotto) has a considerably lower following (index of 123) in F-21. The rub-off instant game is at 105.

While at the casinos, F-21's play the legal video blackjack and poker slot machines (with indices of 192 and 176, respectively).

In G-24, families with younger children predominate. Recently built single-family units make up much of the housing stock. Among the state lottery products, the rub-off instant game has the highest index of participation in G-24 (141).

Horse racing (with an index of 37) and casino blackjack at a table (with an index of 44) are especially low in F-21 neighborhoods.

G-22: Middle Income, Suburban Blue Collar - Middle Income Higher Value Housing

Group G neighborhoods largely consist of middle income suburbs with a significant proportion of blue collar workers. The population is primarily made up of young, white families. Housing tends to be fairly new, single-family homes.

G-23 contains largely white families, often with teenage children. G-23 is solidly upper-middle income, with generally skilled blue collar and professional/technical workers. Most adults have a high school degree, but there is a low proportion of college graduates. Single family homes of more recent construction with fairly high value predominate.

Skill contests have the highest index of participation in G-23 neighborhoods. At the casino, legal video blackjack slot machines (with an index of 150), conventional slot machines (with an index of 128), and progressive slot machines (124) have high indices. (Table XII, page 76)

G-24: Middle Income, Suburban, Blue Collar - Young Families

In G-24, families with younger children predominate. These areas have a more lower-middle slant than do segment G-23 neighborhoods. There is a high proportion of recent movers. The labor force is even more blue collar than in G-23, with above average numbers of full-time working women. Recently built single-family units make up much of the housing stock.

Among the state lottery products, the rub-off instant game has the highest index of participation in G-24 (142). Pick 4 has an index of 118; Pick 3 has an index of 111; and Pick 6 (lotto) has a below-average index of 85. Lottery subscriptions have an index of zero. (Table XII, page 76)

Likely players of electronic video Player Activated Lottery Machines (PALMs) have an index of 118 in G-24 neighborhood types – a tie with the high index in B-08.

I-29: Older Population, Lower-Middle Income - Older Families, Retirees, High Mobility

Areas heavily populated with senior citizens make up ACORN Group I. The income profile of households in this group is lower-middle, but note that this reflects current annual income and does not necessarily mean low accumulated assets or "wealth." The housing stock is also generally older. These areas have a very low percentage of non-white residents.

It is not unreasonable to expect a sales increase of 15 percent to 30 percent (in the U.S. lottery industry overall) through the judicious use of a greater understanding of one's marketplace. A 15 percent increase would be $1 billion, and a 30 percent increase would be $2 billion.

The oldest non-institutional ACORN segment, I-29 has the highest concentration of persons aged 55 to 64, and the second highest of persons over 65. Forty-five percent of all persons fall into one of these age brackets in segment I-29 areas. The proportion of households which have recently moved into these neighborhoods is high, and the housing stock is fairly expensive. The level of education is high.

I-29 leads all ACORN classifications in its proportion of sales/administrative/clerical workers – jobs senior citizens often take upon retirement from their initial career and relocation to a new area.

These are people who have chosen where they will retire. The area contains mixed single family and small multi-unit complexes, especially condos. Home values and rents are fairly high.

Betting with a bookie has considerable support in I-29 neighborhoods (with an index of 335). Legal video poker slot machines (index of 267) and video blackjack slot machines (with an index of 218) also enjoy heavy participation. (Table XIV, page 81)

All state lottery products have indices below 100.

I-30: Older Population, Lower-Middle Income - Older Housing

I-30 contains older families and senior citizens with very few minorities. There is also often a substantial presence of college students in these areas. I-30 is solidly middle to lower middle income. The work force is white collar. It has very old housing, with a mix of single unit structures and mid-rise complexes. Home values are low.

Unlike I-29, lottery subscriptions are at the top of the list in I-30 neighborhoods. Bingo (with an index of 143) is second. (Table XV, page 81)

Illegal "gray area" machines also enjoy considerable play (with an index of 127), as do break-open/pull-tab tickets (with an index of 126).

State lottery participation is low. The rub-off instant game (with an index of 90) leads the list among the major existing state lottery products, with Pick 6 (lotto) second at 66, and Pick 3 and Pick 4 in the 40s.

I-31: Older Population, Lower-Middle Income - Small Towns

I-31 is generally older, but with more children and young families than is the norm for Group I. There is low minority presence. I-30 is lower middle income with a mix of blue and white collar. Housing is primarily single family homes built after World War II. There is also a higher proportion of mobile homes than is the norm for this group. Home values are about average.

I-31 has the greatest number of activities with above-average indices of the neighborhood types in this article. I-31 people "do almost everything." (Table XVI, page 82)

Lottery subscriptions are on top (with an index of 174) and Pick 6 (lotto) is second (with an index of 153).

The remaining player selection games (Pick 3 and Pick 4) have indices of 151 and 144, respectively, while the rub-off instant game has an index of 103.

Casino, roulette, craps and blackjack at a table have below-average indices.

I-32: Lower-Middle Income Older Population - Eastern Europeans

I-32 has a very high proportion of persons over 65, with very low minority presence. I-33 has the lowest income profile in Group I, with an above average percentage of persons with below-poverty-level income. These areas are often near institutions, so there is a high percentage of service workers. Housing is fairly old, mainly single units and of mixed values. (Table XVII, page 82)

Lotteries reign supreme among these I-32 Eastern European neighborhoods. The rub-off instant game is on top (with an index of participation of 212). Lottery subscriptions, Pick 4, and Pick 3 have the next highest indices. Pick 6 (lotto) also has a high index.

An obvious application of this kind of information, (i.e., the index of 212 for the instant game in I-32 neighborhoods) is to ascertain whether the penetration of lottery sales agents in a given neighborhood type is matched to the index of participation in that neighborhood type.

While people do buy lottery tickets just about anywhere, most purchases are made in places the person regularly and routinely visits. Locations near his home are the most predominant, particularly in high density urban situations where there is greater reliance

Continued on page 64
(Table on next page)

XIV: NEIGHBORHOOD TYPE I-29

Activity	Index
Bet with a Bookie	335
Legal Video Poker Slots	267
Legal Video Blackjack Slots	218
Sports Betting with Friend	185
Blackjack at Table	180
Craps	163
Roulette	156
Atlantic City Casino Gaming	151
Coin-Operated Video Outside Home	129
Progressive Slots	119
Bingo	112
Poker	111
Cards For Money with Friends	110
Slot Machines	101
Pinball	99
Pick 3 (Daily) Lottery	98
Cents-Off Coupons	98
Giveaway Games	96
Raffles	93
Pick 4 Lottery	91
Pick 6 (Lotto) Lottery	81
Likely Video Lottery Players	78
Horse Races	76
Lottery Subscription	58
Video Games at Home	57
Illegal Video Gray Machines	52
Non-Skill Contest	51
Rub-Off Instant Lottery	47
Skill Contest	0
Big Six	0
Break-Open or Pull Tab Tickets	0
Trading Stamps	0

XV: NEIGHBORHOOD TYPE I-30

Activity	Index
Lottery Subscription	144
Bingo	143
Skill Contest	141
Sports Betting with Friend	128
Roulette	127
Illegal Video Gray Machines	127
Break-Open or Pull Tab Tickets	126
Giveaway Games	117
Cards For Money with Friends	115
Non-Skill Contest	112
Cents-Off Coupons	109
Horse Races	93
Video Games at Home	93
Atlantic City Casino Gaming	92
Poker	90
Rub-Off Instant Lottery	90
Coin-Operated Video Outside Home	76
Blackjack at Table	73
Raffles	71
Likely Video Lottery Players	68
Pick 6 (Lotto) Lottery	66
Craps	66
Pinball	60
Legal Video Blackjack Slots	58
Legal Video Poker Slots	54
Slot Machines	50
Pick 3 (Daily) Lottery	47
Pick 4 Lottery	44
Progressive Slots	16
Big Six	0
Bet with a Bookie	0
Trading Stamps	0

Tables continued on next page

XVI: NEIGHBORHOOD TYPE I-31

Activity	Index
Lottery Subscription	174
Bet with a Bookie	173
Horse Races	162
Pick 6 (Lotto) Lottery	153
Poker	151
Pick 3 (Daily Lottery)	151
Break-Open or Pull Tab Tickets	148
Sports Betting with Friend	147
Pick 4 Lottery	144
Illegal Video Gray Machines	129
Giveaway Games	123
Non-Skill Contest	123
Video Games at Home	120
Big Six	117
Bingo	114
Legal Video Poker Slots	113
Legal Video Blackjack Slots	112
Cards For Money with Friends	108
Skill Contest	107
Coin-Operated Video Outside Home	107
Pinball	107
Progressive Slots	105
Likely Video Lottery Players	103
Rub-Off Instant Lottery	103
Raffles	101
Cents-Off Coupons	99
Slot Machines	93
Blackjack at Table	90
Atlantic City Casino Gaming	89
Craps	88
Trading Stamps	84
Roulette	72

XVII: NEIGHBORHOOD TYPE I-32

Activity	Index
Rub-Off Instant Lottery	212
Lottery Subscription	197
Pick 4 Lottery	197
Pick 3 (Daily) Lottery	195
Pinball	185
Bingo	173
Pick 6 (Lotto) Lottery	145
Non-Skill Contest	143
Coin-Operated Video Outside Home	126
Raffles	124
Video Games at Home	119
Cents-Off Coupons	112
Likely Video Lottery Players	107
Cards For Money with Friends	104
Slot Machines	103
Atlantic City Casino Gaming	102
Trading Stamps	96
Horse Races	79
Blackjack at Table	75
Poker	69
Craps	67
Progressive Slots	66
Break-Open or Pull Tab Tickets	64
Giveaway Games	60
Legal Video Blackjack Slots	60
Legal Video Poker Slots	55
Roulette	43
Sports Betting with Friend	21
Skill Contest	0
Big Six	0
Illegal Video Gray Machines	[illegible]
Bet with a Bookie	0

XVIII: NEIGHBORHOOD TYPE I-34

Activity	Index
Skill Contest	246
Bingo	159
Bet with a Bookie	158
Atlantic City Casino Gaming	148
Pick 4 Lottery	142
Pinball	140
Giveaway Games	137
Trading Stamps	137
Break-Open or Pull Tab Tickets	128
Progressive Slots	127
Pick 3 (Daily) Lottery	125
Cents-Off Coupons	125
Rub-Off Instant Lottery	124
Raffles	117
Pick 6 (Lotto) Lottery	115
Illegal Video Gray Machines	111
Non-Skill Contest	110
Slot Machines	110
Likely Video Lottery Players	103
Video Games at Home	101
Cards For Money with Friends	100
Poker	99
Blackjack at Table	96
Big Six	89
Coin-Operated Video Outside Home	83
Sports Betting with Friend	75
Horse Races	54
Legal Video Blackjack Slots	51
Legal Video Poker Slots	47
Lottery Subscription	42
Roulette	37
Craps	0

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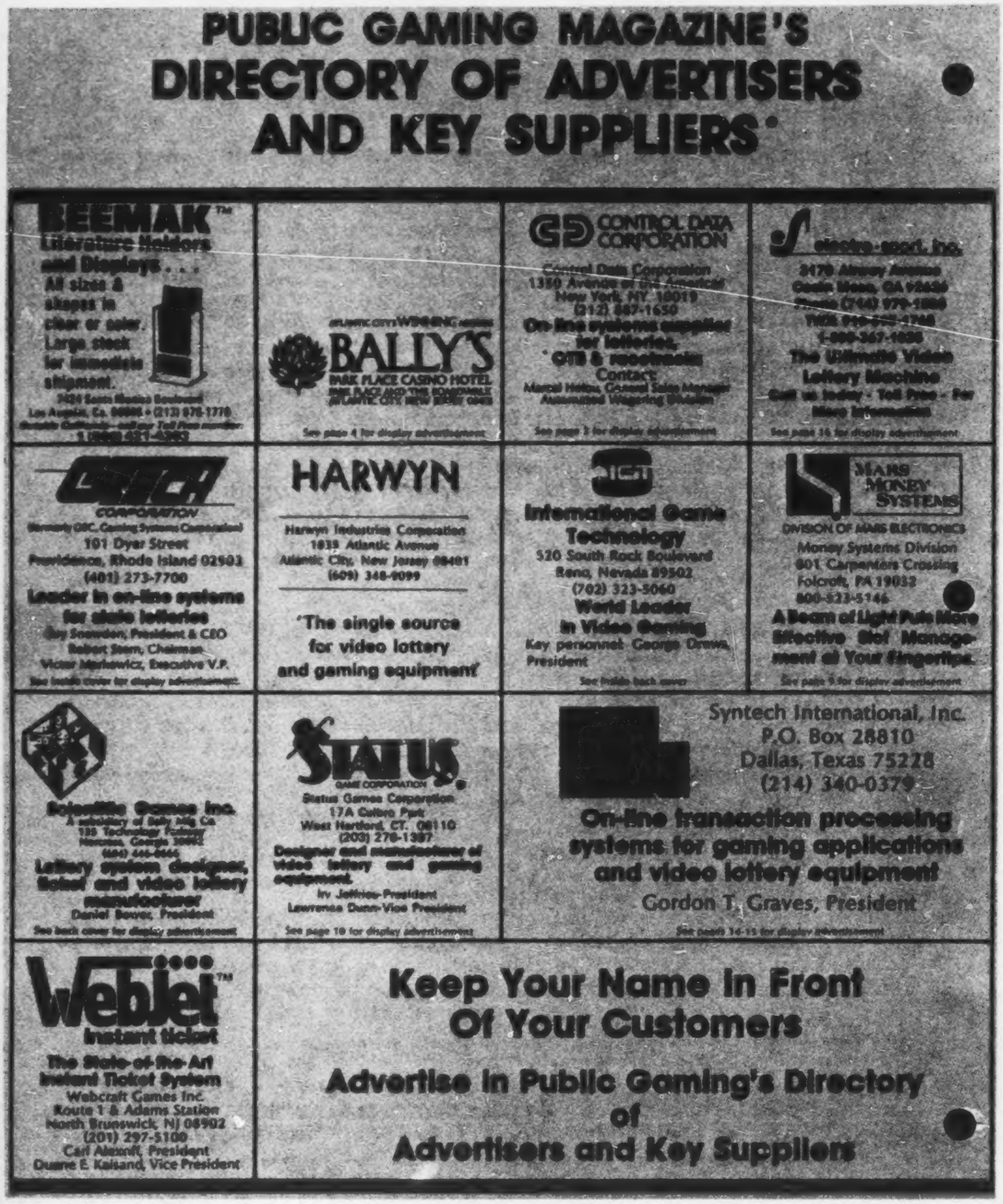

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See back cover for display advertisement

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Lawrence Dunn-Vice President
See page 10 for display advertisement

Syntech International, Inc.
P.O. Box 28810
Dallas, Texas 75228
(214) 340-0379
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Gordon T. Graves, President
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TAB G

LOTTERIES AND CRIME

Prepared by Robert L. Mote, Scientific Games, Inc., May 1984

One early objection to a state-operated lottery was that it might encourage criminal activity. This objection probably found its origin in the lottery scandals of the early 1800s when lotteries were operated by private companies under government license with minimal government regulation or scrutiny. However, since the first modern lottery was implemented in 1964 (New Hampshire), the warnings about lotteries and crime have been increasingly diminishing. This is understandable. Twenty years of experience with modern state lotteries has established conclusively that lotteries do not encourage crime and, in fact, quite the reverse is probably true.

Nonetheless, since there is still an occasional critic who echoes the ominous warnings of his predecessors of the 1960s about lotteries and crime, the issue should be addressed. The objection on this ground generally has two component questions. First, do lotteries encourage organized criminal activity? Second, are lotteries susceptible to fraudulent activity to the detriment of the public who plays the lotteries? The answer to both of these questions is a resounding "NO"!

Lotteries and Organized Crime

There have been numerous studies on the issue of whether a modern state lottery encourages organized criminal activity. One of the most comprehensive and earliest of such studies was the "Task Force Report on Legalized Gambling", prepared by a blueribbon Task Force for the Attorney General of California, dated June 21, 1971. The Task Force defined its purpose as follows:

> "The bulk of this study has been concerned with the relationship between legalizing certain types of gambling and with the law enforcement problems incident thereto. Considerations pertaining to incidental crimes and organized crime activity in relation to legalized gambling have received a major part of the attention given to the treatment of this subject." (p. 2.)

The Task Force examined the three lotteries then in existence: New Hampshire, New York, and New Jersey. Among the conclusions reached in the study are the following:

- New Hampshire Lottery: "Fears that organized crime and racketeers would attempt to take over the lottery, counterfeiting problems, and lottery-related crime simply did not appear as predicted by the intitial opponents of the lottery in New Hampshire... Primarily, because of the extraordinarily tight security system used in the ticket purchases, there has simply been no possibility that organized crime or racketeers could infiltrate the lottery system so as to effect a takeover." (p.5.)

- New York Lottery: "New York officials emphasized the fact that the lottery had created virtually no law enforcement problems as a result of its existence. The police have not been called upon to supervise or give assistance to the lottery, the lottery has been absolutely trustworthy, and there has been no serious attempt to corrupt the lottery or the lottery officials. ... There is no apparent increase in street crime, robberies, theft, etc., as a result of the lottery ticket sales... One official stated that they have maintained close scrutiny over the lottery system and have determined that there was a noticeable absence of efforts by the organized criminal elements to become involved in the operation of the state lottery. The primary reason for this is that there is not sufficient profit available to organized crime groups to make protracted involvement in the state lottery attractive to organized criminal groups." (pp. 12, 14, 17.)

- New Jersey Lottery: "As far as New Jersey officials know, there has been no increase in either street crime or loan-sharking as a result of the lottery. They were also of the opinion that no law enforcement problem was created for the police in any manner. ... There was absolutely no indication that organized crime would or could take an interest in the operation of the lottery. The lottery would probably not present a fertile area for profit for organized criminals inasmuch as the state was sole operator of the lottery and the only person in which profit would be made." (pp. 20, 24.)

- Conclusion: "The Task Force feels that the law enforcement problems attending state-operated lotteries on the East Coast are minimal to nonexistent." (p.57.)

These conclusions are reaffirmed by officials in the various lottery states themselves. For example, the following lottery directors have made the following statements on this issue:

- Ohio: "To date, we have had no known infiltration by organized crime, although there were many accusations and innuendoes at the beginning of the Ohio Lottery in 1974. The Ohio Lottery took aggressive action when these allegations were made.... In summary, I feel that organized crime would not find the Ohio Lottery appealing for infiltration because of (1) uncertain prospects and opportunities to penetrate; (2) no significant benefit or profit should they do so; and (3) being unable to avoid detection." (Edwin C. Taylor, Executive Director, Ohio Lottery, May 7, 1981.)

- Massachusetts: "The record of lotteries in the United States for the past 18 years has not had one incident of association with organized crime.... The fact that 75 countries around the world have successfully been conducting lotteries for hundreds of years also speaks well for the nature, public acceptance and control of lotteries." (Dr. William E. Perrault, Executive Director, Massachusetts Lottery, April 27, 1981.)

- New Hampshire: "In 1963, New Hampshire passed legislation authorizing the first legal lottery in this country in the twentieth century.... Opponents made dire predictions of criminal infiltration...stringent security measures were implemented from the beginning of the operation and there has never been any possibility of infiltration by the criminal elements." (James M. Kennedy, former Director, New Hampshire Sweepstakes Commission.)

- Delaware: "During my lottery experiences in New Jersey, Illinois, and Delaware, I have neither directly nor indirectly encountered any evidence whatsoever of any infiltration or resemblance thereof by organized crime into the affairs of lotteries. And furthermore, during these years of experience, my attention has not been attracted to the first bit of evidence that would substantiate that the same has occurred." (Ralpn F. Batcn, Director, Delaware Lottery, May 6, 1981.)

- Pennsylvania: "There has been no evidence nor even an allegation that organized crime has infiltrated any of the state-operated lotteries in the United States. As a matter of fact, all of the state-operated lotteries have gone to great lengths, through investigations and other security controls, to insure that organized crime is in no way having any input or any other connection with the lottery operations." (Lynn R. Nelson, Executive Director, Pennsylvania Lottery, May 8, 1981.)
- Michigan: "Lottery opponents invariably argue that organized crime gleefully awaits the installation of the state lotteries. I can categorically and unequivocally deny this. Neither Michigan, nor any state, to my knowledge, has had any difficulty in this regard." (Gus Harrison, former Commissioner, Michigan State Lottery.)

Not only is it completely untrue to suggest that organized crime has been the least bit encouraged or expanded by the existence of state lotteries, but there are strong indications that quite the reverse is true.

As Professor Mark Abrahamson concluded in Gambling In Connecticut, a research report by the University of Connecticut, "Legal gambling opportunities tend generally to decrease illegal gambling participation." Gus Harrison, former Commissioner of the Michigan State Lottery gave one rationale for that conclusion: "There is evidence that some people switch and prefer to play an honest, legal state game."

As cited by the California attorney Task Force Report, one New Jersey law enforcement official indicated "that some persons may withdraw their patronage of a [illegal] numbers game and support the state-run lottery primarily because of the general feeling of indignation expressed towards organized criminal elements in the State of New Jersey...." (p.27.) In fact, that same Task Report indicated that "one official source estimated that as much as 15% of the [illegal] numbers play activity had been cut into by the New Jersey Lottery... One of the reasons why a person would be prone to stop playing the illegal numbers game in favor of the lottery would be that the numbers game is first and foremost illegal. Second of all, the odds are not as favorable as those in the state lottery. Third, the numbers game in New Jersey is not always as reliable as the state lottery (apparently, in numbers, the controllers do not pay off all the time.) Finally, the lottery provided a much more reputable opportunity to gamble a small amount of money." (pp.22-3.)

Indeed, modern state lotteries are marketing certain of their games to compete directly with the illegal numbers game. For example, Pennsylvania introduced its first on-line game, the Daily Number Game, on March 1, 1977. As reported by the vice-president/management supervisor of the lottery advertising agency, one of the goals of this new lottery game was "to penetrate the lucrative illegal gambling market in Pennsylvania." He concluded that "the product has fulfilled its mandated objectives dramatically." (*Public Gaming Magazine*, January, 1983, p.24.)

Perhaps the most comprehensive and dramatic figures which confirm the position that legal state-operated lotteries decrease illegal gambling is found in the 1975 study "Gambling In America", Appendix 2, which reported the following:

> "The presence of a state lottery decreases illegal gambling and accounts for a difference of almost 5 percentage points compared to a situation without a lottery. Since average participation in illegal gambling involves less than 11% of the population, this is a substantial swing in behavior." (p.169.)

To summarize, not only is there absolutely no evidence to support the accusation that lotteries tend to encourage organized criminal activity, but quite the reverse has been found to be true. If anything, this situation creates a strong justification for the introduction of a legal state-operated lottery.

Lotteries and Fraudulent Activity

Besides concerns of organized criminal activity, criticisms have occasionally been voiced that a lottery is susceptible to internal fraud, such as the counterfeiting of winning tickets, with the result that the public is not presented with a fair and honest game to play. This criticism is as baseless as the criticism about organized crime and reflects a fundamental misunderstanding of the extensive security measures adopted by modern lotteries. From the intensive background investigations of lottery employees and sales agents, to the strict security measures adopted during the printing, production and distribution of lottery tickets, to the sophisticated computer programs which are capable of detecting any attempts to counterfeit or defraud a lottery game, the modern lottery is replete with security measures which have proven effective in preventing any type of efforts to undermine the integrity of a lottery game.

To be sure, at the outset of the modern lottery, lottery officials were confronted by increasingly new and creative efforts by individuals to tamper with the lottery game. At the outset, these efforts may have experienced some success. However, quick detection and corrective measures in the early stages of the modern lottery have led to a virtually fraud-free lottery at this time. As Colorado spokeswoman Marlene Desmond stated, "If you try to cheat the lottery, all you win is a pair of handcuffs." (Omaha World Herald, April 24, 1983, p.l.)

Arthur Weinstock, Jr., Chief of Security at the Massachusetts State Lottery, wrote a detailed article concerning the extensive security measures implemented in the Massachusetts Lottery to prevent any type of fraudulent activity. (That article appeared in the July 8, 1982 edition of FBI Law Enforcement Bulletin.) Mr. Weinstock concluded: "In all, we are confident that the efforts made to guarantee the integrity of the [lottery] products over the years has paid off in public confidence and an increasingly successful operation. Security has been the hallmark of this business which has grown from $56,000,000 in 1972 to $250,000,000 in 1981."

In a similar article, Robert Denz, Executive Director of the New Hampshire Lottery, and previously with the FBI for 26 years, explained the security system in New Hampshire which has led to a lottery virtually free from any internal criminal activity or external fraud. (Mr. Denz' article, "Security Within a Lottery's Perimeter", appeared in Public Gaming Magazine, January, 1983). One of the reasons for a crime free lottery is the incredible security measures utilized during ticket production to assure a counterfeit-free ticket.

The bottom line of this analysis is that lotteries are one of the few businesses which have implemented the stringent security requirements necessary to prevent and almost eliminate any incidents of internal criminal activity or attempts to defraud the lottery.

TAB H

Lotteries

MYTHS...MYTHS...MYTHS...MYTHS...MYTHS

Lotteries are in an extremely visible position in the United States today. With growing support in states across the nation for expanded legalization, those states which do have lotteries have become the only reliable source of information on what to expect after startup.

Unfortunately, opponents of lottery legalization do not often turn to the facts when discussing the topic. Myths about who plays the lottery abound. Around the country, allegations are repeated in public forums concerning players' economic, social, and cultural status.

Fears about potential negative effects of lotteries on the community are often raised, despite the fact that research done to date indicates overwhelmingly favorable results from legalized lotteries. One of the most telling statistics is the one showing that residents where lotteries have been legalized approve of their lottery by a vast majority.

In most cases, opposition to lotteries seems to be founded more on fear than fact. Again and again, misconceptions refutable by authoritative data are raised in public debate. Lottery supporters are usually put in the position, not of arguing relative merits and disadvantages of lotteries, but of addressing rumor and misstatement.

In the following section, the primary misconceptions about lotteries, as identified by lottery executives are addressed. Footnotes and tables are used to reference the growing body of reliable research being done on the sociodemographical makeup of lottery players, and of the lotteries' effect on the community, the players, and the economy.

MYTHS... MYTHS... MYTHS... MYTHS... MYTHS

Lotteries

The Myth: The Lowest Income Groups Buy a Disproportionate Share of Lottery Tickets.

In compiling a checklist of the most prevalent misconceptions regarding lotteries, one allegation seems almost always to push its way to the forefront. In states considering introduction of a lottery, again and again the fear is expressed that lotteries, because of their easy accessibility, will attract play from individuals in lower-income levels in disproportionately high numbers.

While it is true that lower income players in some states do play some games in numbers exceeding their statistical representation in the population at large, repeated studies have demonstrated that, overall, lottery play is heaviest among middle to upper-middle income levels.

A report by Dr. John Koza, published in Public Gaming Magazine in January, 1982 – "The Myth of the Poor Buying Lottery Tickets" – presented a series of sales demographics conducted by Scientific Games, Inc. of Atlanta, Georgia.[1]

The data base for the analysis was 6.5 million lottery winners (an extraordinarily high number for a survey of this nature) representing 140 different lottery games falling into 24 basic game categories in five states – New Jersey, Pennsylvania, Michigan, Illinois, and New York.

The results, outlined in Table 2 indicated that for all 24 games, individuals with household incomes of $10,999 or less were underrepresented in lottery play in comparison to their percentage of the overall population.

The $18,000-$22,999 income group was underrepresented in all but five of the categories. On the other hand, the $23,000-$33,999 income grouping played all of the games in numbers greater than its representation by percentage in the overall population.

When the data on income level and

Table 1

Washington State

Player Participation Rate By Income Level When Compared To Income Group's Proportion of Total State Population

Household Incomes In Thousands Of Dollars

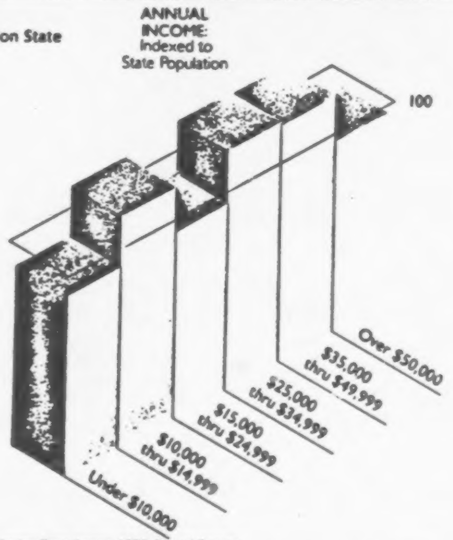
Weekly Values In Percentages Above Or Below Player Group's Proportion Of The State's Population

Week	$0 - $5	$5 - $10	$10 - $15	$15 - $25	$25 - $35	$35 - $50	$50 - Up
1	−3	−21	+16	+ 2	+18	0	−54
2	−1	−13	+ 7	− 5	+23	0	−38
3	−6	−15	+ 7	− 2	+21	− 4	−20
4	−3	−10	+ 2	− 2	+ 9	+ 7	− 6
5	+11	− 7	+ 9	−12	+12	− 2	− 6
6	0	−15	+14	− 7	+23	− 2	−36
7	−13	−13	+ 2	− 6	+25	− 4	+18
8	−6	−20	+ 3	− 3	+19	+ 6	0
9	−9	−17	+13	−11	+23	+ 5	− 1
Average	−3.3	−14.5	+8.1	−5.1	+19.2	+0.6	−15.9

Explanatory note: *Minus means players from that income group bought less tickets than that income groups proportion of the population would warrant, plus means more.*

MYTHS...MYTHS...MYTHS...MYTHS...MYTHS

Figure 1
Washington State Lottery



Source: Washington State Lottery 1983 Annual Report

lottery play was broken down even further, and indexed to income distribution in each state separately, the same conclusion was reached.

According to Dr. Koza's analysis, "There is none of the 140 lottery games in the five states (and none of the 24 groupings of games) over the five to 10 year period, for which the lower income categories participate at a rate even equal to their percentage in the population. In all cases, their participation is lower."

A more recent study, published by Scientific Games in July 1983, analyzed socio-demographic data on instant, weekly, and daily game lottery players in eight states serviced by Scientific Games as a ticket vendor. The states included Arizona, Colorado, New Jersey Maine, Michigan, Pennsylvania, New York, and Washington. [2]

In a report analyzing the study's results, Glenn Shippee, Donna Schwartzman, and Kim Reynolds of the Arizona State Lottery Marketing Research Unit wrote: "In some cases, spanning five years, this study conclusively demonstrates that it is a middle income segment of the population that is the primary market for lotteries.

"The Scientific Games research has indicated that 70-75 percent of the lottery players have household incomes of $15,000 or more. Further, their research indicates that the poor (under $5,000 in income) are extremely underrepresented among lottery players." [3]

Lotteries

A study independently conducted by the Arizona State Lottery produced similar results. According to the research program, carried out by Shippee *et al*, "the poor are dramatically underrepresented among lottery players. This study also revealed that the median income of players in Arizona ($21,000-$22,000) corresponds closely to the median household income of state residents." [4]

The Washington State Lottery, the first state-operated lottery to develop a system for obtaining week-by-week demographic profiles of its players, started up sales in November, 1982. A demographic profile released in February of this year showed that for the first nine weeks of its operation, the lottery attracted heaviest play from the $25,000 to $35,000 income bracket. Those players participated at a rate 20 percent higher than their proportion of the state's population.

Far from being the heaviest buyers of tickets during the first nine weeks, residents in the under-$10,000 income range participated in numbers less than proportional to their representation in the state for all but one of the games. [5]

In its 1983 Annual Report, the Washington Lottery indexed lottery play by income categories. For example, an index number of 135 for a category means players in that group played the lottery in numbers 35 percent more than their representation in the population overall. A rating of 100 means a group played in exactly the

MYTHS...MYTHS...MYTHS...MYTHS...MYTHS

Lotteries

Table 2

ANNUAL HOUSEHOLD INCOME (1980 Dollars)

	% Over $56,000	% $34,000-$56,000	% $23,000-$33,999	% $18,000-$22,999	% $11,000-$17,999	% $8,700-$10,999	% Under $8,700
☐ $1 INSTANT GAMES (76 Games)							
New Jersey - 9 Games	135	143	120	96	80	74	67
New York - 17 Games	133	126	110	95	89	84	84
Michigan - 25 Games	113	145	123	97	72	71	74
Illinois - 13 Games	110	134	121	94	81	76	78
Pennsylvania - 12 Games	65	84	107	118	105	95	93
☐ 50¢ WEEKLY DRAW-TYPE (22 Games)							
New Jersey- 2 Games	140	145	120	96	79	73	66
New York - 4 Games	115	124	114	98	88	81	83
Michigan - 2 Games	120	152	124	94	69	69	71
Illinois - 11 Games	115	134	120	94	81	75	78
Pennsylvania - 3 Games	70	86	107	118	103	93	92
☐ $1 WEEKLY DRAW-TYPE (24 Games)							
New York - 2 Games	133	126	107	94	90	84	86
Michigan - 4 Games	123	153	123	93	68	69	71
Illinois - 13 Games	110	132	120	95	82	77	80
Pennsylvania - 5 Games	68	85	107	118	104	94	92
☐ $2 INSTANT 'HORSE RACE' GAMES (2 Games)							
New York - 1 Game	133	126	110	95	89	83	84
Pennsylvania - 1 Game	65	84	107	118	105	94	93
☐ $5 DRAW-TYPE GAMES (6 Games)							
New Jersey - 1 Game	138	146	120	96	78	71	65
New York - 1 Game	130	126	110	95	88	83	84
Michigan - 1 Game	125	159	124	92	66	66	69
Pennsylvania - 3 Games	73	87	108	118	103	92	90

Example: 135 rating means group played game in numbers 35% more than overall representation in population.

Table continued on next page

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Table 2 continued ANNUAL HOUSEHOLD INCOME (1980 Dollars)

	% Over $56,000	% $34,000-$56,000	% $23,000-$33,999	% $18,000-$22,999	% $11,000-$17,999	% $8,700 $10,999	% Under $8,700
☐ $10 DRAW-TYPE GAMES (7 Games)							
New York - 7 Games	148	132	111	93	86	78	80
☐ WEEKLY LOTTO (1 Game)							
New York - 1 Game	108	106	101	98	98	97	96
☐ WEEKLY KENO (1 Game)							
New York - 1 Game	140	128	107	93	90	84	86
☐ PERCENT OF U.S. POPULATION WITH INCOME LEVEL SHOWN	4.0%	13.7%	23.0%	18.9%	12.0%	11.0%	17.3%

☐ NOTE:
This graph is based on analysis of 6,504,237 recorded winners of large prizes in 140 different lottery games of 24 categories from five lottery states. The data represents all valid, in-state, centrally-recorded winners in all 140 games in all 5 states from the time of each lottery's inception (which ranged from 1971 to 1976) until spring 1981. The analysis was performed by Scientific Games Inc. of Atlanta, Georgia

same proportion as its representation in the state overall.

The group with the highest index rating – 117 – was the $25,000-$34,999 category. Second highest was $35,000-$49,000, with 115 rating. The most underrepresented category was the under – $10,000 income range, with an index rating of only 88.[6]

A study of demographic profiles of lottery players in Colorado by Scientific Games, published in August 1983, concluded that participation was below-average among residents with annual household incomes below $9,999 and above $50,000. The $10,000-$14,999 and the $25,000-$34,999 groups played in above-average numbers.[7]

Research carried out in the industrialized lottery states in the Northeast corroborate the Western states' findings.

Using a base of 97,000 records, a study conducted in New York by Scientific Games found that residents in income levels below $18,000 and above $56,000 participated at lower rates than they were represented in the population. Those residents in the $18,000-$56,000 range played in numbers exceeding their representation in the state.[8]

In neighboring New Jersey, a telephone survey conducted during a one-week period in August of this year, consisting of 1,306 interviews conducted by Bruskin Market Resarch, divided the respondents into four different income categories. The survey then determined how many people in each category played each of the five games offered by the state.

For each of the games, the group with the highest percentage of play

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fell into either the $15,000-$25,000 range (the leader in four of five of the games) or $25,000-$40,000 (tops for the Pick 6 game). [9]

In 1981, Opinion Research Corporation of Princeton, N.J., conducted a study for the Pennsylvania State Lottery, in which residents were divided into six different categories based on a umber of variables. In one of the six oups, a greater percentage within the group played the lottery than in any other group. (61.7 percent of the group were players, approximately 10 percentage points more than in the next-most-involved group.)

Within this "heavy play" group, the percentage of individuals falling into each of five income groups was determined. The results were then compared to the percentage of Pennsylvanians falling into each category for the state overall.

The only three income categories within this "heavy play" group which exceeded their proportion in the state at large fell into the $15,000-$30,000 range. The under-$10,000 category was underrepresented in this "lottery-favoring" group. [10]

Players in Vermont, representative of the New England lottery states, showed a similar pattern of player income level vs. population at large. A January, 1982 report by Market Opinion Research of Detroit, MI based its findings on telephone interviews of 00 families. The survey showed that tery players participated according to the following percentage breakdown (representation of each income level in the population at large is shown in parentheses). Less than $10,000 – 15 percent (17 percent); $10,000-$20,000 – 38 percent (32 percent); over $20,000 – 34 percent (33 percent). [11]

This pattern of middle-income groups buying the lion's share of lottery tickets extends to Canada. Ten percent of the players of the Ontario Lottery Corporation have household incomes of under $10,000. The highest participation group, representing 32 percent, have household incomes between $20,000 and $29,999 per year. [12]

An intriguing footnote to the discussion of who plays the lottery involves the public's perception of who is buying the tickets. Repeated studies have shown that while the most vocal opponents of lotteries use the "poor are buying" argument, they are a minority among the public.

Lottery spokesmen appearing in public forums must inevitably confront the eyewitness account by someone in the audience who saw "a person on welfare buying $20 worth of lottery tickets."

Marketing Research of the Arizona Lottery went to the public in July 1983 to determine how prevalent this perception was among the state's residents. 207 Arizonans were asked to respond to the statement "The majority of lottery players are low income people who cannot afford to play." Seventeen percent agreed or strongly agreed. Sixty-three percent disagreed or strongly disagreed. Twenty percent had no opinion. [13]

An earlier series of surveys, conducted by Public Response Associates of San Francisco in Arizona, Colorado, and the District of Columbia showed that 81 percent of the public believed that buying a lottery ticket would appeal to the average person and not the poor. Interestingly, in the District of Columbia and Arizona, only 23 percent and 30 percent respectively of those opposing the lottery believed the myth about the poor. In Colorado, 29 percent of those saying they would not purchase a lottery ticket believed the myth. [14]

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1 "The Myth of the Poor Buying Lottery Tickets," by Dr. John Koza, Public Gaming Magazine, January 1982.

2 Analysis of Sales Data of Lotteries, July 1983, Scientific Games, Inc., Atlanta, Georgia.

3 "Taking the 'Greek' Out of Some of the Myths That Surround the Lottery Industry: A Commentary," Glenn Shippee, Ph.D., Donna Schwartzman, M.A., Kim Reynolds, December 1983.

4 "Using Demographics to Increase Lottery Sales," by G.E. Shippee, D.J. Schwartzman, K. Reynolds, Public Gaming Magazine, August 1983.

5 "Washington State Lottery Keeps Demographic Tabs on Instant Lottery Players," Public Gaming Magazine, February 1983.

6 Washington State Lottery 1983 Annual Report.

7 "Colorado and Washington State Lotteries: Analysis of Lottery Players Using Claim Forms," August 5, 1983.

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Version III. Conducted by Scientific Games

9 Preliminary Report for the New Jersey State Lottery by Bruskin Market Research

8 Interview with John Quinn, Director, New York State Lottery, December 1, 1983.

10 Pennsylvania Lottery Study for the Bureau of State Lotteries, Opinion Research Corporation, Princeton, NJ, 1981

11 Survey for Vermont State Lottery by Market Opinion Research of Detroit, MI, January, 1982.

12 "Fact and Fiction in the Lottery Industry." A speech delivered by Ontario Lottery Corporation President D. Norman Morris to the Agincourt Rotary Club, July 7, 1983.

13 "Taking the 'Greek' Out of Some of the Myths That Surround the Lottery Industry: A Commentary," Shippee, Swartzman, Reynolds.

14 "the Myth of the Poor Buying Lottery Tickets," Koza.

The Myth: Lotteries Appeal to the Less Educated

An issue similar in thrust to that of the poor buying lottery tickets is the allegation that lotteries appeal to individuals with less-than-average education; the implication being that the less-educated are also less aware of the rather forbidding odds of winning certain games.

As with the income issue, the perception of lottery's appeal to the less educated is a myth.

Table 3
Colorado State Lottery
Participation by Educational Level
(From claim form analysis for first three games)

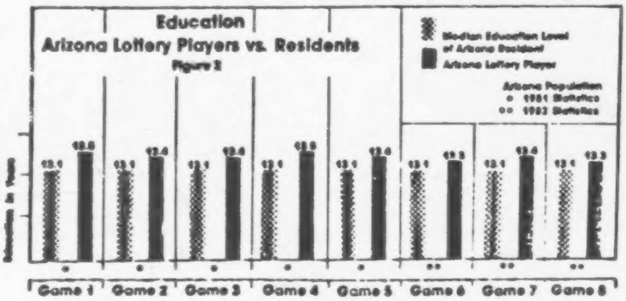
Educational Level	Percent of Colorado Population	Index of Participation
0-8	10.6	53
9-11	10.8	125
12	34.6	121
College		
1-3	21.1	120
4 +	22.9	60

In a study of player demographics during its initial nine weeks of operations, the Washington State Lottery found that residents with 1-3 years of college were overrepresented in lottery play to a degree significantly exceeding that of any other educational group. Based on an index of 100, those in this category reached index levels as high as 141.

Conversely, those with eight years of education or less were severely underrepresented, with indices during the nine-week period ranging from 68 down to 43. [1]

Final figures for Fiscal Year 1983 in the state showed residents with 13-15 years of education totaling out at an idex of 120, with those with eight years of education or less playing at an index rate of 56, the lowest of any category. [2]

Continued on page 36


Education
Arizona Lottery Players vs. Residents
Figure 2

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Continued from page 33

The Arizona Lottery also tested for educational level of its players during the duration of its first eight instant games. For each of the games, the median education level of players remained remarkably consistent. (See Figure 2). In every case, the median educational level of players exceeded that of Arizona residents overall. [3]

In Pennsylvania in 1981, approximately 18 percent of all residents had less than a high school diploma. The segmentation analysis done for the Pennsylvania Lottery in 1981 by Opinion Research Corporation, using the procedure described in the previous section, found that in the "heavy play" group – the group showing the most interest in the lottery – only 9.8 percent had less than a high school degree. [4]

Based on analysis of winners' claim forms for its first three games, the Colorado Lottery determined that residents with less than eight years of education and those with more than four years of college were underrepresented as far as participation in the lottery. Those with the highest participation indices fell into the range between the ninth grade and three years of college. (See Table 3).

The Myth: Lotteries are a Regressive Form of Tax on the Poor

Often, lotteries are accused of being "regressive," many times by individuals who are not quite sure of the word's meaning.

For purposes of discussion, "regressive" may be defined as describing a fixed expenditure which takes a larger portion of a lower-income individual's assets than it does of a person with a higher income. Obviously, simple logic says that any item which costs the same for a poor person as for a rich person is regressive. An example of a "non-regressive," expenditure (i.e., "progressive") is the graduated income tax, where higher tax rates are applied against higher income.

In addressing this issue, it is first helpful to point out that a lottery is not a taxing organization but a business. According to Webster's Seventh New Collegiate Dictionary, a tax is "a usually pecuniary charge imposed by authority upon persons or property for public purposes." The purchase of lottery ticket is completely voluntary.

Beyond the semantic issue, there exists some evidence to suggest that the net effect of lottery purchases among varying income levels is not, in fact, regressive.

In a commentary released in December 1983, Glenn Shippee, Donna Schwartzman, and Kim Reynolds of the Arizona Lottery Marketing Research Unit wrote:

> *There is a definite paucity of research that has addressed this issue. The following studies have obtained data that is relevant to this question.*
>
> *1. Wu, R.Y., A Cross-Section Study on the Demand for State Lottery Tickets. The American Economist, 1979, 23, 6-12.*
>
> *2. A Survey Examining Lottery Play in Arizona. Television station KVOA, Tucson, Arizona, May 1982.*
>
> *Both of these studies obtained results that suggested that the weekly amount spent on lottery products was significantly and positively correlated to household income. That is, these studies suggested that the higher an individual's income, the more money that individual expended, per week, on the lottery. However this relationship only holds for persons with household incomes that fall below $50,000. Over this household income level, this relationship disappears.*
>
> *One study - Shippee, G.E., "On-Line" Game Product Preferences," unpublished manuscript, Arizona State Lottery, April 1982 – has found no relationship between income and weekly lottery expenditures.*
>
> *Finally, the Reynolds and Shippee survey of 1983 polled the public on this issue. Respondents were asked if they felt the lottery represented "a regressive" form of taxation. Eighty-two percent of the respondents disagreed with this perspective'*

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[1] "Washington State Lottery Keeps Demographic Tabs on Instant Lottery Players," Public Gaming Magazine, February 1983.

[2] Washington State Lottery 1983 Annual Report.

[3] "Using Demographics to Increase Lottery Sales," by G.E. Shippee, D.J. Schwartzman, K. Reynolds, Public Gaming Magazine, February 1983.

[4] Pennsylvania Study for the Bureau of State Lotteries, Opinion Research Corporation, Princeton, NJ 1981.

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A slightly different perspective on the regressivity issue as it relates to gaming overall was offered by William P. Weidner, president of the Sands Hotel and Casino in Atlantic City. In the November 1983 issue of Public Gaming Magazine, Weidner wrote: "It is only logical that any form of leisure that costs money is regressive. A larger portion of a poor person's income is spent on movies, amusement parks, junk food, video games, sporting events, ice cream, candy – everthing – because they are poor.

"If gaming is regressive, then tax shelters and swimming pool purchases ae progressive since a larger share of wealthy person's income is spent on these items." [2]

The Myth: Winning Is Disruptive

One of the more ironic misconceptions regarding lotteries is that winning a large jackpot is a mixed blessing. Although all lottery players obviously take part in the hopes of enjoying significant winnings, there nonetheless exists a running subcurrent of fear among a large segment of the public that being thrust suddenly into the limelight of "instant riches" may be more disruptive than it is worth.

The results of a survey by the Ontario Lottery Corporation, updated through November of this year, indicate however, that the lifestyles of the overwhelming majority of the lottery's jackpot winners changed little after their windfalls.

An overwhelming majority of the big-money winners kept their jobs and stayed in the same house, according to the survey of 870 people who won between $7,000 and $1 million in the lottery. Few were bothered by adverse publicity or bothersome requests for donations.

Of the winners responding to the survey, 91.4 percent of those employed kept their job. Eight of the 25 winners of $500,000 or more continued to work.

Most of the winners bank their money, and few indulge in spending sprees. Only 2.2 percent spent the bulk of their winnings on luxuries. Twenty-five percent bought a new car, and only 22.6 percent took vacations.

More than two-fifths of those winning large prizes, 40.8 percent, shared their good fortunes with friends, family and charities.

Nine of ten winners are not subjected to calls and letters begging for money, and seven of ten of those contacted do not consider the solicitations a problem, the survey revealed.

Most of the big winners have not been bothered by media attention. Of those responding to the survey, 90.1 percent said media treatment of their good luck had been fair and courteous. [1]

The Myth: Revenues From Lotteries Go Primarily to the Lottery and Its Administrators

A survey conducted by the Arizona State Lottery this year found that of the 207 residents contacted, 11 percent disagreed or strongly disagreed that lottery funds were being used wisely by the state.

What was perhaps more discon-

Table 4

USES OF NET REVENUES FROM STATE LOTTERIES

State	Use Of Funds
Arizona	Transportation
Colorado	Parks & Facilities
Connecticut	General Fund
Delaware	General Fund
D.C.	General Fund
Illinois	General Fund
Maine	General Fund
Maryland	General Fund
Massachusetts	Local Aid
Michigan	Education
New Hampshire	Education
New Jersey	Education/Insts
New York	Education
Ohio	General Fund
Pennsylvania	Senior Citizens
Rhode Island	General Fund
Vermont	Debt Ret./Const
Washington	General Fund

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[1] *"Taking the 'Greek' Out of Some of the Myths that Surround the Lottery Industry: A Commentary," G.E. Shipper, D.J. Schwartzman, K. Reynolds, December 1983.*

[2] *"Using Gaming Market Research to Position the Casino Product," by William P. Weidner, Public Gaming Magazine, November 1983.*

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[1] *"Lottery Winner Research Indicates Life as Usual," Wendy Horne, Ontario Lottery Commission.*

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Table 5
Distribution of Gross Sales Revenue

State	Gross Sales	Prize Money	Commissions, Advertising and Administrative Costs	Net to Fund
Delaware	30	16	3	11
New Jersey	693	345	53	295
Maine	13	6	3	3
Massachusetts	279	155	37	92
Rhode Island	44	22	7	15
Vermont	5	1	2	1

All figures in millions of dollars. Rounding accounts for discrepancies in totals.

certing to the state than the number of dissenters was the fact that of the respondents, a total of 40 percent either had no opinion on whether lottery funds were being used wisely (20 percent) or had no idea where the funds were going (20 percent). Said the authors of the report: "This is an area that may require significant levels of media attention, not only in Arizona, but in other states as well."[7]

Among some segments of the public, there exists the belief that lottery revenues are used primarily to perpetuate the lottery and underwrite its administrators.

In reality, in most states, approximately half of gross sales revenue is returned to players in the form of prize money. Out of the remainder, a relatively small percentage goes to agents commissions, administrative costs, and advertising. The bulk of monies retained after costs have been deducted goes to either the state general fund or a specifically earmarked fund.

How net revenues are used in each of the 18 lottery jurisdictions in the United states is shown in Table 4. The

Figure 3
Distribution of Delaware Lottery Revenues in State General Fund

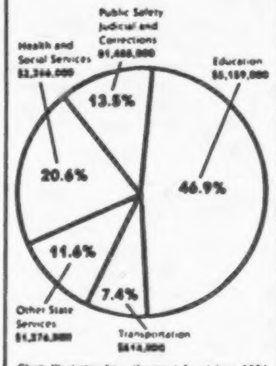

Chart illustrates how the total fiscal Year 1983 Lottery contribution of $11,000,000 distributed from the General Fund to provide state services. Percentages are based on projected appropriations for the current fiscal year.

Table 6
Distribution of Net Lottery Revenues To Senior Citizens In Pennsylvania (Fiscal 1981-1982)

Total Property Tax Rebates Distributed	$60,361,367
Total Rent Rebates Distributed	32,595,610
Total Inflation Dividends Distributed	22,592,875
Total Bonus Payments Distributed	42,306,800
Total Free Transit Distributed	27,005,322
Total Senior Citizens Program Benefits paid Fiscal Year 1981-1982	$184,861,974

distribution of gross revenues in dollars in six of the lottery states is shown in Table 5.

Pennsylvania is currently the leading lottery state in terms of total sales. Annual sales there will soon exceed $1 billion dollars. As representative of how lotteries are benefiting state residents, Table 6 shows a breakdown of the distribution of net revenues to senior citizens, the lottery's designated beneficiaries, during fiscal year 1981-1982, when the lottery generated $562.3 million in sales.

In states in which lottery revenues are deposited in a general fund, the lottery's contributions are distributed in proportion to overall fund disbursements. Figure 2 demonstrates such a disbursement in the state of Delaware.

The Myth: Lotteries are Immoral and Weaken the Social Fabric

Opponents of lotteries, usually in states where no lottery exists, often criticize the games as either being immoral, destructive of the work ethic, or an irresistible stimulus to compulsive gamblers.

Each of the issues lends itself to a somewhat emotional discussion, as it is difficult to quantify morality, for instance. What statistical evidence does exist, however, indicates two things. First, that little or no evidence supports the critics' claims; and second, that the opponents of lotteries and other forms of legalized gaming, while vocal and often influential, are in a minority.

In a survey of Arizona residents carried out by the Arizona Lottery this year, only four out of every 100 respondents agreed with the statement that it was morally wrong to play the lottery.[1]

An independent study done for the Colorado State Lottery, July 1983, found that 81.1 percent of Coloradans were in favor of the lottery.[2] In Canada, 85 percent of Ontario residents of legal age have participated in lotteries at one time or another.[3] This pattern of overwhelming support of lotteries wherever they are legal is unbroken across the states and provinces.

"Gambling in America," a definitive report issued by the Commission on the Review of the National Policy Toward Gambling in 1976 indicated that throughout the United States, 77 percent of all those surveyed in states where lotteries were legal were favorable to the lottery. Fourteen percent were negative. The remainder were either unsure or had no answer. Overall, including states where lotteries were not yet legal, 61 percent of the respondents favored legalization.[4] (291, Appendix 2)

The game report states that 80 percent of its respondents favor some form of legalized gambling.

John D. Quinn, director of the New York State Lottery, and president of the National Association of State Lotteries, believes the debate concerning the morality of lotteries touches on the democratic concept. "The issue is very fundamental," says Quinn. "It is whether in a free society, a substantial majority of Americans can decide whether an activity is good and that they like it, and whether they can be prevented by an elitist minority from exercising their right to participate in that activity."

One of the keys to discussing the topic, says Quinn, is to first agree on a workable definition of morality. Because of the impossibility of working with a myriad of parochial definitions, Quinn says that the only alternative is to turn to a standard dictionary.

"Webster's defines morality as 'rightness or wrongness in conduct,'" says Quinn. "If you accept Webster's definition–and this is an important point–then you have to accept the fact that morality operates at two levels. First, there is the personal level–what each of us believes in our hearts, minds, and souls to be right or wrong. Second, there is the public level. To my mind it follows logically that public morality would be the composite of all the private moralities that exist.

"If that is so," he says, "then if we could hook a tabulating machine to each person's head, and ask him or her "how do you feel about this issue?", we would have a good idea of what public morality is on any issue at any time."

Because such a machine doesn't exist says Quinn, we are forced to turn to reliable surveys to determine people's

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[1] *"Taking the 'Greek' Out of Some of the Myths That Surround the Lottery Industry." Shippee, Schwartzman, Reynolds.*

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Demographic Characteristics and Attitudes Towards Legalization of Lotteries

	Positive to Legalization %	Negative to Legalization %	Unsure %	No Answer %	Total Sample %
Total sample	61	29	6	4	100
Currently legal					
Yes	77	14	7	2	100
No	49	41	5	5	100
Geographic Region					
Northeast	84	8	7	1	100
North central	68	22	8	2	100
South	37	49	6	8	100
West	62	33	3	2	100
Income					
Less than $5,000	38	46	12	4	100
$5,000-10,000	53	33	8	6	100
$10,000-$15,000	66	25	5	4	100
$15,000 and over	71	24	4	1	100
Marital Status					
Married	62	29	6	3	100
Divorced/separated	69	23	6	2	100
Widowed	36	39	16	9	100
Never married	69	24	5	2	100
Education					
Less than high school	45	38	10	7	100
High school	66	27	4	3	100
Some college	73	22	5	0	100
College degree	72	22	4	2	100
Age					
18-24 years	64	28	4	4	100
25-44 years	69	23	6	2	100
45-64	61	30	6	3	100
65 and over	34	50	10	6	100
Distance from largest 25 cities					
Less than 25 miles	72	20	6	2	100
25-49 miles	80	14	6	0	100
50 miles or more	51	38	6	5	100

Source: Final Report of the Commission on the Review of the National Policy Toward Gambling, 1976

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beliefs. He cites the Gambling Commission's report as one of the most authoritative in defining the public's positive stance toward lotteries.

With regard to lotteries undermining the work ethic, and-in a related issue-exacerbating the problem of compulsive gambling, Quinn says that during his tenure as director of the New York Lottery, over 2 billion tickets have been sold, and he has not received one phone call or letter saying a wife or husband "had spent the bread or milk money on the lottery."[5]

"There has been no documented case of anyone quitting work and pursuing their future through the hope of winning a lottery," said D. Norman Morris, president of the Ontario Lottery Corporation, in a July 1983 speech.[6]

In fact, says Morris, even after winning high-tier jackpots in the Ontario Lottery, 92 percent of the winners return to their jobs. It should be noted, however, that the Ontario study included in its sample winners of prizes descending to $7,000. No separate results were reported for winners or $1 million or more.

Related to the topic of destruction of the work ethic is the issue of the lottery and compulsive gambling. Critics of lotteries and potential lotteries warn that their introduction will cause an upsurge in complusive gambling, by providing gambling opportunities for people previously unexposed to gaming.

Compulsive gambling does exist in this country, says Dr. Robert Custer, medical adviser to the National Council on Compulsive Gambling and one of the nation's foremost experts on the subject. He describes a person as a compulsive gambler if his gambling causes him difficulties in his personal, vocational, or family life.

A compulsive gambler is not defined by how much he bets, said Custer, but by his psychological approach to gaming. "The compulsive gambler," said Custer, "is totally involved and immersed psychologically in gambling-to the exclusion of everything else in his life and to the extent his judgement is impaired. Two major myths in this country are that there are no compulsive gamblers and that anyone who wagers heavily is compulsive."

Custer believes that a number of variables must come together for compulsive gambling to manifest itself. To become a compulsive gambler, a person must be psychologically so disposed, to have the opportunity to wager, and win large amount with some frequency.

"I think winning is a lot more stimulating than we realize," said Custer. "Particularly winning amounts ranging from a fourth to a half of one's income. That is one of the things about the lottery that I've never been very concerned about, because people don't win big that often. There are a lot of $1 and $2 winners, but very few million dollars winners."

Custer estimates that of the 80 percent of the people in the United States who gamble, perhaps 1 percent of that number would have a gambling problem. He says that no reliable studies have been done linking lotteries to compulsive gambling, and indicates that more difinitive research can be done as the lotteries become ingrained in the American culture. He does applaud those lottery states-Maryland, Connecticut, New York, and New Jersey-that have earmarked a portion of lottery funds for treatment of compulsive gambling, and welcomes similar proposals in other states.[7]

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1 "Taking the 'Greek' Out of Some of the Myths that Surround the Lottery Industry: A commentary," Glenn Shippee, Donna Schwartzman, Kim Reynolds, December 1983.

2 "Colorado State Lottery, Statewide Baseline Tracking Survey," Market Analysis Professionals, Inc., Littleton, Colorado, July 1983.

3 "Fact and Fiction in the Lottery Industry," A Speech Delivered by Ontario Lottery Corporation President D. Norman Morris to the Agincourt Rotary Club, July 7, 1983.

4 "Gambling In America, Final Report of Commission On the Review of the National Policy Toward Gambling," 1976, Appendix 2, p.291.

5 Interview With John D. Quinn, Director of New York State Lottery, December 2, 1983.

6 See footnote 3

7 Interview with Dr. Robert Custer, medical advisor to the National Council on Compulsive Gambling

LOTTERIES AND THE PARIMUTUEL INDUSTRY TAB I

Prepared By Robert L. Mote, Scientific Games, Inc., May 1983

1. INTRODUCTION

The introduction of a state-operated legal lottery is occasionally opposed by the parimutuel industry. There seems to be an apparently reasonable reaction that there is some phenomenon called the "gambling dollar" and that every dollar spent playing the lottery is one less dollar spent on parimutuel wagering. That position, however, has never been supported by any empirical analysis which could be found and all available evidence indicates it is simply untrue. **IN FACT, IF THERE IS ANY RELATIONSHIP AT ALL BETWEEN THE LOTTERY AND THE PARIMUTUEL INDUSTRY, IT APPEARS TO BE A COOPERATIVE AND MUTUALLY SUPPORTIVE ONE.**

Richard J. Carey, Director of the Maine Lottery, in a May 10, 1983 letter, briefly commented on the initial opposition of the parimutuel industry to the introduction of a lottery in Maine and the change in attitude of the parimutuel industry after the lottery was legalized and the industry had some years of actual experience to gauge the effects of the lottery on parimutuel:

> "Maine has a harness racing industry which was well entrenched when lottery legislation was introduced in 1973. Although they had not been able to substantiate their claim that the lottery would cut into their revenues they strongly opposed the creation of a state lottery.
>
> "Several years have since passed and their fears have not materialized. The industry and the lottery are both setting earning records annually. The tracks sell lottery tickets and the lottery is seriously considering conducting off track betting using in-state tracks when open. Revenues from an OTB operation would be shared between the lottery and the racing industry.
>
> **"THE POINT IS THAT THE LOTTERY HAS NOT AFFECTED THE RACING INDUSTRY IN A NEGATIVE MANNER WHATSOEVER."**

Mr. Carey's comments about the experience in Maine are characteristic of the experiences of other parimutuel states where lotteries have been introduced.

2. LOTTERIES AND PARIMUTUEL ARE MUTUALLY SUPPORTIVE

Indeed, once a lottery has been established in a state, the original unfounded fears of the parimutuel industry in that state quickly vanish as people learn that a lottery and the parimutuel industry can co-exist -- indeed, even prosper -- with no negative cross-effects. Many states, like Maine, experience cross-support between the two gaming forms instead of the predicted competition. For example, some state lotteries use horse race results to determine lottery winners. In one state (New Jersey), the lottery ran a game called "Holiday Sweepstakes at The Meadowlands" in late 1978. Not only was the winner of the game determined by the race results at the Meadowlands, but also the lottery ticket entitled the holder to one free admission to the race track. The result was that the Meadowlands had the second highest attendance night of its history (the highest being the opening night).

As another example of cross-support between lotteries and parimutuel, as in Maine, many race tracks actually sell lottery tickets on their premises. For example, Joseph E. Carney, Jr., Vice President and General Manager of the Seabrook Greyhound Park in New Hampshire, wrote on January 2, 1981:

> "For the past eight years we here at Yankee Greyhound Racing, Inc. d/b/a Seabrook Greyhound Park have been associated with the State of New Hampshire Sweepstakes Commission in the sale of lottery tickets and promotion of the Great Greyhound Race. We have found that selling tickets here has been a great convenience for our customers. Furthermore, we are pleased to be one of the top sales offices for the State Lottery.
>
> "We believe the establishment of ticket offices at tracks would be in the true spirit of cooperation which normally exists between the State and its licensed parimutuel facilities."

Certainly, there would not be this cooperation if indeed the lottery and the parimutuel industry competed for some definable "gambling dollar."

3. LOTTERIES DO NOT CAUSE DECREASE OF PARIMUTUEL REVENUES

The fact of the matter is that the introduction of a lottery simply does not impact the amount of money wagered in the parimutuel industry. As illustrated by the following statistics of six lottery states (Table I), the trend of the parimutuel turnover in a state as established for the two years before the introduction of a lottery was not affected by the lottery.

TABLE I

Arizona - Lottery Started July 1981

	Parimutuel Turnover	Greyhound Turnover
1981	95,051,179	128,328,190
1980	75,466,211	105,554,556
1979	64,518,715	107,950,014
1978	52,133,780	97,678,139

Illinois - Lottery Started July 1974

	Parimutuel Turnover
1976	910,920,366
1975	788,094,440
1974	745,997,779
1973	685,910,320
1972	601,520,931

Maine - Lottery Started June 1974

	Parimutuel Turnover
1976	22,836,611
1975	22,774,550
1974	Not available
1973	Not available
1972	23,228,724

Maryland - Lottery Started May 1973

	Parimutuel Turnover
1975	301,662,647
1974	306,336,398
1973	279,025,178
1972	269,613,479

Ohio - Lottery Started August 1974

	Parimutuel Turnover
1976	355,795,349
1975	340,243,664
1974	283,788,081
1973	258,376,567
1972	238,456,462

Vermont - Lottery Started February 1978

	Parimutuel Turnover	Greyhound Turnover
1980	419,713	14,821,922
1979	325,974	15,857,522
1978	271,232	14,610,422

---

*Statistics obtained from annual reports of the National Association of State Racing Commissioners.

As noted by Paul Silvergleid, former Gaming Commissioner of Connecticut for 5 years (with responsibility for both the lottery and parimutuel wagering), and currently a consultant for all forms of wagering,

> "In examining data from racing states that have had lotteries for many years, one is hard pressed to find any ill effects that have been inflicted on the racing programs from the lottery."

(Mr. Silvergleid's "Report on the Effects of a State-Run Lottery on Parimutuel Betting," dated January 31, 1983, is attached as Exhibit "A." In his report, Mr. Silvergleid compares the data from selected states in reaching his conclusion.)

4. LOTTERY PLAYERS AND PARIMUTUEL WAGERERS ARE DIFFERENT

It appears that the primary reason that lotteries have no negative effect on parimutuel revenues is that the lottery player and the parimutuel player are two different gaming patrons. Thomas Carney, Chairman of The Colorado Racing Commission, supported that view. Commenting on the introduction of the Colorado Lottery he stated:

> "Lottery players are different from horse and dog-racing patrons in the state. ... Racing interests had no objection to the lottery and the tracks have not been hurt by it."

(Reported in Omaha World Herald, April 24, 1983.)

Indeed, an extensive survey completed by the Stanford Research Institute (SRI) earlier this year in New Jersey, which has both lotteries and parimutuel, concluded that of all those who had gone to the race track at all in the previous year, 79.6% had never bought a New Jersey Lottery ticket. (See the following Table II.)

TABLE II

Question: Have you ever bought a New Jersey State Lottery Ticket?

	Race Track Attendance in Prior Year						
Answer	N/R	None	Once	2-11/Year	1/Month	2-3/Month	Once/Week
No Response	6	15	5	2	1	0	0
Yes	11	453	48	29	0	2	2
No	18	633	169	152	12	5	9
Don't Know	0	0	0	0	0	0	0
Total	35	1,101	222	183	13	7	11

5. STUDIES ESTABLISH THAT LOTTERIES DO NOT HURT PARIMUTUEL

The facts that the lottery player and the parimutuel wagerer are different and that a lottery will not negatively effect parimutuel revenues have been confirmed in other reports. The most conclusive of these reports was conducted under the auspices of Loto-Quebec and La Societe des Loteries et Courses du Quebec and summarized by its president and general manager, Jean-Marc Lafaille, at the Laventhol and Horwath Fourth Annual Gaming Conference and International Gaming Congress, October, 1982. They studied three American states, Great Britain and Austria to determine whether the introduction of one "game of chance" caused a "detriment to sales of another game," or, as denominated in the report, a "cross effect." The report concluded:

> "In the United States, we found major cross effects between on- and off-track betting and also noticed a cross effect between casinos and horse racing. There was no cross effect between lotteries and horse racing or lotteries and casinos."

Another report was prepared April 7, 1981 by a consultant to the parimutuel industry, Killingsworth, Liddy & Co. of Arlington, Massachusetts and Teguesta, Florida. It is entitled "The Nature of Wagering Markets and the Implications for Pari-Mutuel Regulations and Taxation" and was presented by Dr. William R. Killingsworth to the 1981 Annual Convention of the National Association of State Racing Commissions. A portion of that report was dedicated to "Interaction and Competition Among Types of Wagering." Noticable was the fact that the report analyzed the effects of OTB and casinos on track betting but did not even consider lotteries to have a significant enough competitive impact to even mention them.

That report also contained interesting statistics on New York area parimutuel wagering as a percentage of income for 1970, 1972 and 1979. The New York Lottery was "restarted" in 1976 and, in spite of that, the parimutuel spending rose from .370% of income in 1972 to .413% of income in 1979. Similarly, the report presented total annual attendance for Belmont and Aqueduct plotted against the number of racing days and data points were presented for the years 1964 through 1978. In spite of the fact that the lottery was introduced in 1967 and "restarted" in 1976, the report noted that the only major declines in attendance occurred in 1971 and 1972, "coincident with the introduction and growth of New York City OTB."

Finally, Temper, Barker and Sloane, Inc., of Lexington, Massachusetts prepared a 280 page report entitled "An Analysis of the California Horse Racing Industry" which it submitted to the California Horse Racing Board in March 1979. The report analysed some of the problems facing the horse racing industry and proposed solutions. In spite of the fact that the introduction of a lottery was a "hot topic" at the time, the report concluded that possible problems were attributable to: (1) a declining attendance because of such things as "the level of take-out" "appearance or perception of race manipulation" (p. 6); (2) inflation; and (3) inequitable state regulation (p. 3). Nowhere in this 280 page report was a possible lottery mentioned as a problem for parimutuel revenues.

6. DIFFERENCES BETWEEN THE LOTTERY AND PARIMUTUEL MARKET

What differentiates the lottery market from the parimutuel market is harder to determine than the mere fact that they are different and that the introduction of a lottery does not affect parimutuel revenues.

As a preliminary matter, we do know that the parimutuel market is a much narrower market than the lottery market. Approximately 15% of the residents of racing states visit race tracks at some period and in a normal year 10% of the residents will go to the track. (Exhibit "A", p. 1.) On the other hand, 48% of residents of lottery states buy tickets at some point and in a normal year 40% of the residents will buy a ticket. (Id.)

Not only is the parimutuel market "narrower," but it appears to be somewhat demographically different. The Temper, Barker & Sloane Report indicates that "the race-going population is still heavily male ... life in the race-going market still begins at 40 ... (and) race-goers are still under-represented in white collar occupations" (p. 83). Conversely, the lottery market has almost equal participation by sex (though males do play slightly more), almost equal participation by occupation (with the "numbers game" having higher blue collar participation and "lotto" and the "instant game" having higher white collar participation), and basically equal participation among age groups. (Derived from "Comparative Demographics of Six Types of Lottery Products," by Dr. John R. Koza, Public Gaming Magazine, June 1982, pp. 22-29, 44, 50.)

The difference in the two markets may be explainable by the factors which motivate people to play a lottery or to wager on parimutuel:

- **Skill vs. Luck:** Those who bet at a track generally believe that some skill is involved in the play. (Gambling In America, p. 111, Table 5-27.) Lottery players know that there is no element of skill, that winners are determined in a purely random fashion.

- **Entertainment vs. Chance To Win:** "Most people bet on horse races and dog races to have a good time and not to make money or to get rich. Many people enjoy ... a day at the races." (Gambling In America, p. 112.) In contrast, "unlike other forms of gambling, the chance to make money was an important factor in motivating people to buy lottery tickets. With all other forms of legal gambling, money considerations were clearly subordinate to an expressed interest in the activity itself." (Id., p. 156.)

- **Relative Excitement Levels:** Finally, the "excitement level" of parimutuel and lotteries are decidedly different. The Commission On The Review Of The National Policy Toward Gambling indicates lotteries have an "excitement level" of 3.6 (on a scale of 1 to 8) while racing has the much higher level of 6.59.

Whether these factors explain the differences between the lottery market and the parimutuel market may be debatable, but the fact that they are different is not. To repeat, as noted by the SRI survey, 79.6% of race track attendees in a lottery state never have purchased a lottery ticket.

7. CONCLUSION

It is understandable that the parimutuel industry may be somewhat concerned about the possibility of any competition for its market. Indeed, many in the parimutuel industry are seeking solutions to problems they see for their industry on the horizon. However, if there are problems, they are the result of such things as inflation and state regulations and are not the result of competition from the lottery industry.

ALL AVAILABLE EVIDENCE INDICATES THAT THE LOTTERY PLAYER AND THE PARIMUTUEL WAGERER ARE DIFFERENT, THAT THE INTRODUCTION OF A LOTTERY DOES NOT NEGATIVELY IMPACT PARIMUTUEL REVENUES, AND, TO THE CONTRARY, LOTTERIES CAN AND HAVE BEEN CONDUCTED IN WAYS TO HELP THE PARIMUTUEL INDUSTRY.

PAUL
SILVERGLEID
CONSULTANT

A Report On

THE EFFECT OF A STATE-RUN LOTTERY ON PARI-MUTUEL BETTING

by

PAUL SILVERGLEID CONSULTANT

January 31, 1983

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THOROUGHBRED, HARNESS & GREYHOUND RACING • OTB • LOTTERY • JAIALAI • CASINOS

This report examines state-run lotteries that have been put into states that have pari-mutuel wagering. At the present time their are many states that have pari-mutuel programs that are considering lotteries. Many questions have arisen as to the effect the lottery might have on these programs.

According to a 1975 study undertaken for the Commission on the Review of the National Policy Toward Gambling (hereafter called the National Gambling Commission) at the Institute for Social Research University of Michigan approximately 15% of the residents of racing states visit race tracks in those states at some point in time. During the course of a "normal" year 10% of the residents of racing states go to race tracks...and they average eight (8) visits a year. Obviously these percentages can vary to some degree in different states. Let us examine three racing states, Kentucky, Maryland and Louisiana, using the data compiled by the National Gambling Commission to test their results. The 1981 population of Kentucky was 3,700,000. If 10% of the states residents went to race tracks eight times each in that year total track attendance in Kentucky in 1981 would have been 2,960,000 (370,000 x 8). The National Association of State Racing Commissioners annual report on race track attendance and handle tells us that Kentucky race tracks had paid admissions of 2,980,000 in 1981 just about the same number that the study suggests. Using the same criteria in Maryland, a state with a population of 4,250,000 in 1981, track attendance should have been 3,400,000. Their actual 1981 attendance was 3,375,000 (again pretty close). And finally, we can look at the state of Louisiana, a state that has the same population as Maryland (4,250,000) and as such should have attracted the same number of patrons to their tracks. Track attendance in 1981 in Louisiana was 3,372,000...within 3,000 of Marylands attendance. Apparantly the marketing percentages developed by the National Gambling Commission are pretty good.

One other statistic that you might keep in mind at this time is that the same study tells us that the average racing fan spends 0.5% of family income at race tracks.

Now let us leave pari-mutuel wagering for a moment and examine some of the data that was developed during the same study concerning lotteries. Whereas only 15% of a racing states population visit race tracks at one time or another...48% of the residents of lottery states buy lottery tickets at one time or another. During the course of a "normal" year about 40% of the residents of lottery states buy lottery tickets (as compared with the 10% who go to race tracks in race track states). This should be easily understood with lottery tickets being available for purchase at hundreds, if not thousands, of outlets throughout a state with most racing states having only a few race tracks catering to racing fans.

Recent data from lottery states indicate that yearly per capita spending on lottery tickets is about $40. As only 40% of the residents in lottery states buy tickets actual expenditures for lottery tickets among ticket buyers is closer to $100. This latter figure is more in line with the generally accepted premise that most ticket buyers "buy a couple of tickets a week".

The National Gambling Commission study also indicates that people who buy lottery tickets spend 0.05% of family income on ticket purchases. As you will note the money spent on lottery tickets by participants is one-tenth (1/10th) that spent by race track fans.

Now back to racing. The National Gambling Commission study found that 43% of the people who go to race tracks also buy lottery tickets. Using this information and some of the other percentages previously discussed let us examine a racing state that does not have a lottery and see what might take place in that state if a lottery were legalized. According to the National Gambling Commission New Mexico has 130,000 racing fans (10% of 1,300,000 people who reside in the state). If a lottery were started in New Mexico and 43% of the racing fans spent $100 apiece each year buying lottery tickets then those racing fans will spend about $5,600,000 on tickets (56,000 fans x $100). However, of that $5,600,000 about 45% of that total will be returned to those ticket buyers in the form of winnings. In essence only about $3,000,000 a year might actually be spent by racing fans in New Mexico buying lottery tickets. That $3,000,000 represents but 0.025% of the states 1981 pari-mutuel handle of $120,000,000 !

In examining data from racing states that have had lotteries for many years one is hard pressed to find any ill effects that have been inflicted on the racing programs from the lottery. The state of Illinois which has a successful lottery had a pari-mutuel handle of $625,000,000 in 1971. The states handle today is well over one billion dollars ! Total pari-mutuel wagering in New York state, on-track and off-track, in 1981 was well over three billion dollars. Ten years ago New York race tracks handled about one-half that amount ($1,600,000,000). And New York, a state with a lottery, has a pari-mutuel handle that is one billion dollar greater than that in the state of California, a state without a lottery and a state that has six million more residents than New York state. In 1971 Pennsylvania handled $360,000,000 at their tracks...today over $525,000,000. The pari-mutuel handle in New Jersey has risen from $372,000,000 in 1971 to $960,000,000 in 1981. Again, these are all states that run successful lottery programs.

For the most part those who buy lottery tickets and those who go to race tracks are two different types of people. As mentioned before the person buying lottery tickets buys a ticket or two a week and dreams of winning $100,000, or more. On the other hand racing fans spend over $100 every time they go to the race track and expect to have collections in the majority of the races that they bet on. They also spend ten times more per year at tracks than lottery ticket buyers spend buying tickets. Those familiar with race track environments know that most racing fans complain bitterly over "take-outs" (money with-held from the total pools) in the range of 17%, 18% or 19%. The "take-out" in most lotteries is 55%...certainly a percentage that is totally unacceptable to most racing devotees. Racing fans also find racing far more exciting (6.6 rating on a scale of 1 to 8) than lottery fans find lotteries (4.1 rating on a scale of 1 to 8).

The fears in the racing industry that state-run lotteries will severely impact racing handle is without merit. In a "typical" state with a population of 3,000,000 about 300,000 people will go to race tracks in any given year...with about 40% of those racing fans also buying lottery tickets...or about 120,000 fans. In that same state, in a "typical" year, about 1,200,000 people will buy lottery tickets. Whatever the reason, the racing market in all states that have racing is very "narrow". It is commonly known that the horse racing industry is beset with many problems and problems that exist in states that have lotteries and in states that do not have lotteries. There are also many race tracks in states that have lotteries that sell lottery tickets at the track and there have been many promotions in lottery states involving the racing industry that have been highly successful. Quite simply, race track problems have not been caused by lotteries and nonlottery states with pari-mutuel wagering need not fear that the implementation of a lottery will harm their racing program.

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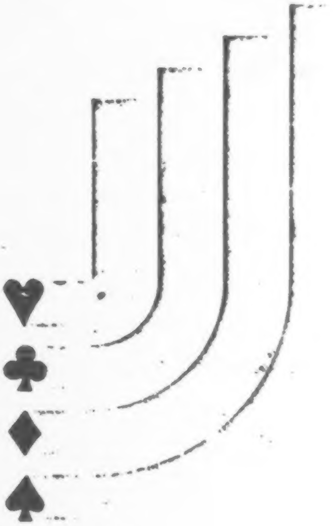

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THE CROSS EFFECTS OF GAMES OF CHANCE

Cross effects come from the fact that the greatest increase in the sale of one game can only be achieved to the detriment of the sales of another game.

Jean Marc Lafaille

Jean Marc Lafaille is president and general manager of Loto-Québec and La Société des Loteries et Courses du Québec. He previously served Loto-Québec as general secretary and legal counsel, and was given the responsibility of initiating a lottery in Canada's Maritime Provinces in 1976. He also has served as international vice president of the National Association of State Lotteries, which includes all the state lotteries in North America.

Cross (or substitution) effects constitute a phenomenon that is an integral part of economic activity. They can occur between games of chance just as commonly as between any other goods and services. Substitution effects between games of chance can be defined as the replacement of game A by game B, which is capable of meeting the same or similar expectations on the part of a gambler.

From our point of view, cross effects result from the fact that the greatest increase in the sales of one game can only be achieved to the detriment of the sales of another game. They become important when you want to introduce a new type of gaming activity in a jurisdiction or start a new lottery where there already is one.

We have studied three American states that are comparable to Quebec, as well as Great Britain, where virtually all forms of gaming are legal, and Austria, whose population shows a low propensity to gamble. Our research confirmed that cross effects are more likely to take place in the following instances:

- When games are in competition, as is the case in Connecticut, where off-track betting, jai alai and greyhound racing are competing for the same dollar, and in New York, with on- and off-track betting competing for the same dollar.
- When the share of income consumers devote to gaming approaches the saturation point (the point where the introduction of a new game will affect the other games), as is the case in Pennsylvania, New York and New Jersey.
- When the consumer's need for a game of chance is fully satisfied and a saturation point has been reached. This is the case in Great Britain and, to a certain degree, Austria.

Saturation point

The share of income devoted to gaming changes considerably from one state or country to another. The saturation point generally is reached when gross spending on games reaches approximately 5 percent of the disposable income of the state or country. When net spending (the bets minus the payout), a more relevant criterion for measurement, is used, the saturation point is about 1 percent of disposable income.

In 1971, the gross spending on gaming in Great Britain was 5.2 percent of disposable income. In 1973, it was 3.1 percent in Nevada and .7 percent in Austria. Net spending in Great Britain was 1.13 percent.

So, when a state or country has reached about 5 percent of gross spending or 1 percent of net spending on gaming activity, it has reached the point where cross effects begin to appear and the introduction of a new game will affect the existing games.

Concerning gaming expenditures on a per capita basis, we noted a disparity among the states and foreign countries in our study. We found that cross effects between games appear just before or as soon as gross spending reaches about $230 per capita and net spending $50 per capita (in 1980 dollars). In 1973, gross spending in New York was $240 per capita and in Great Britain, $215. In 1971, net spending was $53 in New York and $47 in Great Britain.

In the United States, we found major cross effects between on- and off-track betting and also noticed a cross effect between casinos and horse racing. There was no cross effect between lotteries and horse racing or lotteries and casinos.

Quebec—a case history

We looked closely at the situation in Quebec. What we applied there could be used in any state or country.

In 1980, gross gaming expenditures represented 1.8 percent of disposable income in Quebec, but varied between 2 and 4 percent in the other areas. The sales provisions to be made when it comes to gross game spending in per capita terms in 1980 represented $131 in Quebec, compared with $176 to $230 elsewhere. Therefore, in Quebec the market for games of chance was not totally saturated in terms of gross spending. For net spending (which is more significant), the consumption in Quebec equaled or exceeded that of the states and foreign countries we studied. In 1980, the rate of net game spending compared with disposable income was 0.7 percent in Quebec, 0.5 percent in Connecticut, 0.6 percent in New York and 0.9 percent in Great Britain.

You must use both figures—net and gross spending—and the difference can be explained by the type of game that you are running in your own country. For instance, we do not have casinos or off-track betting in Quebec, which means that the percentage we are comparing is much lower than it could be in a state or country that has both. But net spending expresses the spending of the consumer, and when it is around 1.3 percent, it is very difficult to increase.

The same is true for net game spending per capita. In 1980, that figure amounted to $52 in Quebec, $51 in New York, $48 in Connecticut and $39 in Great Britain (1978). The difference between Quebec and the others is a result of the importance of lotteries in Quebec relative to other forms of gambling. In the early 1970s, the public expenditure on gaming in Quebec generally was lower than in the foreign countries studied.

The decrease in the relative importance of horse racing dated from before the implementation of lotteries in Quebec, and the decrease in both 1979 and 1980 in the share of disposable income devoted to lotteries did not benefit horse races. We concluded, therefore, that the consumption of games of chance in Quebec has not reached its ceiling, and that there is no evidence of cross effects among lotteries, horse racing and bingo.

The degree of market penetration for lotteries represents approximately 75 percent of the population aged 18 years and over, whereas it is only 10 percent for horse racing and 20 percent for bingo.

The clienteles of on-track betting, bingo and lotteries have few things in common. Surveys reveal that between 82 and 92 percent of purchasers of lottery tickets do not take part in bingo, and between 85 and 94 percent do not attend horse races. We concluded that there is no cross effect between horse racing and bingo in Quebec, but such is not the case with lotteries.

Comparison with Quebec results

This discovery is not surprising, since the level of consumption of lotteries in Quebec is among the highest in North America, and probably the world. Only Maryland exceeds Quebec in consumption of lotteries, and only slightly. Maryland sells 25 to 35 percent of its tickets to residents of Washington, D.C. With the recent introduction of an instant lottery in Washington, and the introduction of a numbers game next spring, I expect lottery ticket sales in Maryland to drop 25 percent.

Cross effects between instant lotteries and draw back lotteries are more important than those between instant lotteries and numbers games. This means that draw back lotteries are losing a lot to instant games and a little to numbers games. The instant game is not losing anything to the draw back lottery, but is losing a little to numbers. Any way you look at it, numbers games are always getting better compared with other types of lotteries.

The in-depth summary of cross effects that we have done in Quebec is a good tool for large organizations or jurisdictions that want to introduce a new type of gaming activity. This type of study will help them predict the effect that the introduction of a new game of chance will have on an existing game. ■

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THE NATURE OF WAGERING MARKETS AND THE IMPLICATIONS FOR PARI-MUTUEL REGULATION AND TAXATION

A Speech Presented
to the 1981
Annual Convention of
The National Association of
State Racing Commissioners

by
Dr. William R. Killingsworth
Will E. Cummings

April 7, 1981

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OVERVIEW OF STATE LOTTERY OPERATIONS

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OVERVIEW OF STATE LOTTERY OPERATIONS

PREPARED BY

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OVERVIEW OF STATE LOTTERY OPERATIONS

INTRODUCTION

Lotteries, currently a major form of legalized gambling in 17 States and the District of Columbia, have been looked to as a source of revenue by States and local jurisdictions for two decades. After implementing a State lottery through legislative action in 1964, New Hampshire became the first State to adopt this form of gambling to generate revenues, earmarked for education, as a supplement to its general fund.

This CRS report uses published data to chronicle the historical experience of States now offering lotteries; these data include gross and net revenues, use of proceeds, and selected measures of player demographics. Additional information is provided about suppliers and vendors, and for marketing techniques used by the States. This report also discusses the organizational structure of lottery systems, and considers the effect Federal laws and regulations have on State lotteries. Finally, in a summary statement, the last section brings together the major aspects of lottery operations discussed in this report.

I. HISTORY AND BACKGROUND 1/

What is a lottery? One authority notes that "A lottery is a form of gambling in which chances to share in a distribution of prizes are sold. The three essential elements of a lottery . . . are an investment by the player, chance, and a prize." 2/ One part of the U.S. Code offers the following statutory definition:

> For the purposes of this subsection, the term "lottery" means the pooling of proceeds derived from the sale of tickets or chances and allotting those proceeds or parts thereof to one or more chance takers or ticket purchasers. The term "lottery" does not include the placing or accepting of bets or wagers on sporting events or contests. 3/

However, there is no definition of the term lottery which applies uniformly to the Code, and the term may be interpreted differently under State and Federal law.

From early colonial times until the last quarter of the nineteenth century, legally-sanctioned games of chance existed in the U.S. in the form of the lottery. These lotteries were held to raise money for a variety of causes. For example, Benjamin Franklin helped sponsor a lottery so Philadelphia could buy firearms for its defense, while Thomas Jefferson sold portions of his land by lottery to enhance his depleted fortune. The proceeds from a lottery secured the roof under which the first regular Congress of the United States held its sessions. A number of well-known universities, including Harvard, have held lotteries to support themselves. 4/

By the start of the nineteenth century, lotteries had become widespread in this country. However, about that time scandals and corruption in the administration of lotteries had also become widespread. Unethical practices led to State and Federal abolishment of all lotteries, and by 1894, the last lottery of this period was held. State-operated

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1/ This material is based on an earlier report, see U.S. Library of Congress. Congressional Research Service. Legalized Gambling in the United States. Report no. 83-84 E, by Bernevia M. McCalip. Washington, 1983. p. 1.

2/ U.S. Commission on the Review of the National Policy Toward Gambling. Gambling in America: Final Report of the Commission on the Review of the National Policy Toward Gambling. Washington, The Commission, 1976. p. 143. A footnote to the text cites judicial authority as follows: see Hoerner v. United States, 147 U.S. 449 (1892) at 458.

3/ 18 U.S.C. 1307(d)

4/ Marx, Herbert L., Jr., ed. Gambling in America. New York, H.W. Wilson Co., 1952. p. 52.

lotteries were revived by New Hampshire in 1964, when the State's legislature authorized a sweepstakes to benefit local education programs. Since 1964, 16 States and the District of Columbia have followed New Hampshire's lead in reintroducing the lottery in America.

> Revenue raising is the chief objective of state lotteries. The lotteries are not, however, primarily structured to maximize net revenues. As a result of the American experience with lotteries in the 18th and 19th centuries, it is not surprising that state legislatures opted for structures directed at insuring security and honesty at the expense of some revenues. 5/

Most State lotteries operate with an appointed commission with advisory responsibilities, and an executive director and regional managers who are assigned various tasks in running day-to-day operations. (See section III, below.)

According to a survey conducted by the publication State Legislature, State-run lottery operations collectively grossed sales of $5.2 billion in 1983; netting a record $2.08 billion for the 17 States' and the District of Columbia's revenues. Early in 1984, a different publication anticipated lottery gross sales of $6.5 billion for all of 1984. 6/ The present product mix (game formats) among the various State lotteries consists of daily (e.g., numbers games), weekly (e.g., lotto), and instant games.

A. The Instant Lottery

In an attempt to overcome the marketing disadvantages of a delayed pay-off for State operated lotteries, instant games were first introduced by the State of Massachusetts in 1974. The instant lottery game provides a player an "opportunity to win prizes immediately for a reasonable monetary risk." 7/ Among all State lotteries, the vast majority of instant tickets that have been sold have been priced at $1.00. Usually, when a State starts a lottery operation, the instant game is the first type of lottery implemented. By the end of 1983, all lottery jurisidictions except Maryland were operating some form of instant game. 8/

5/ Weinstein, David, and Lillian Deitch. The Impact of Legalized Gambling. New York, Praeger, 1974. p. 19.

6/ Industry Outlook. Public Gaming, January 1984. p. 43, 45.

7/ Ten Commandments for Instant Success: A User's Manual to Proper Care and Feeding of the Instant Ticket. Public Gaming, May 1984. p. 9.

8/ Marketing Lottery Games: Taking a Cool Approach with a Hot Product. Public Gaming, April 1984. p. 23.

B. Legal U.S. Numbers Games

Numbers games were originally called "Policy." Policy originated as a sideline for 18th century London Lottery Houses and was introduced in America late in the 18th century as an adjunct to lotteries. While lotteries were used as fund raisers for governments and charities, Policy was operated exclusively for the profit of the Lottery Company. 9/

New Jersey began the first legal numbers game in 1975, and, with the exceptions of Arizona, Colorado, and Washington State, the numbers game is curently legal in other lottery States. (See table 1.) Generally, bettors wager on a two- or three-digit number ranging from 000 to 999. The daily winning number is determined by an arbitrary mechanism, varying from State to State.

According to information presented at the International Conference on Casino Operation and Regulation held in Atlantic City and Las Vegas in 1980, the legal numbers game was recognized as the major lottery revenue generator in all State-operated lotteries. As of the end of 1983, 15 of the 18 jurisdictions operating lotteries had implemented a daily numbers game.

C. Lotto

According to a survey of lottery executives conducted by Public Gaming, lotto is currently the most significant game in the lottery industry today.

Lotto, a centuries-old game of Italian origin, combines the elements of player participation, small as well as large weekly prizes, and the impression that it is easy to win. Although there are a number of ways in which lotto can be played, the traditional game involves a player selecting five or six numbers out of a range of 40. The typical cost to play ranges from $1 to $4. At the weekly drawing, winning numbers are randomly selected. First prize is awarded to the player correctly selecting five or six winning numbers in any sequence. If more than one player selects the same winning combination, the prize is shared. If no one selects the correct numbers, the prize money is carried forward into a revolving pool for the following week's drawing and accumulates until the first prize is won. This cumulative procedure can result in occasional extraordinarily large prizes. In a recent example, the Illinois grand lotto prize totaled $40 million and was won by a single individual.

Since the introduction of lotto by Massachusetts in 1978, other jurisdictions operating lotteries have implemented the game. These are Connecticut, Delaware, the District of Columbia, Illinois, Maryland, New Jersey, New York, Ohio, Pennsylvania, and Rhode Island. Lottery representatives in several jurisdictions suggest that "lotto is nearing, and

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9/ Public Gaming Research Institute. The Magazine of Public Gaming Research and Administration, summer 1977. p. 10.

in some cases, surpassing the sales of the industry's historical best-seller, the daily numbers game." 10/

D. Video-Instant Lottery

The video-instant lottery game, currently legal only in Nebraska and Illinois, is the industry's newest product concept. However, general acceptance of this game format is limited. Some public and private groups view video-instant games as slot machines and many State laws currently prohibit the use of slot machines or other similar devices. 11/

Physically, video lottery machines

> resemble an arcade video game, but they have some features of a slot machine. The player inserts a dollar and plays a video game. . . The machines print out a ticket that can be cashed in at the bar or grill where the machines are located. The lottery feature comes from the fact that winning or losing has nothing to do with skill but is determined by pure electronic chance. 12/

The Nebraska Legislature passed an anti-video lottery bill on April 2, 1984, outlawing such lottery machines, effective January 1, 1985. According to Mark Fellman, Vice-president of Video Consultants of Nebraska, and supplier of Electro-Sport video lottery machines in Nebraska, $18 million in total credits (gross income) had been recorded on its machines since September 1983. 13/

More recently, on August 1, 1984, Illinois announced plans to test the first Statewide video lottery. The six-month long test will use approximately 300 terminals placed in State-licensed locations -- mainly bars and taverns because they have patron age restrictions. Each play will cost one dollar. State officials anticipate that gross sales on the 300 terminals will reach $7 million during the testing period. In an attempt to assess public opinion and acceptance of video lottery, the machines have been programmed to conduct on-the-spot surveys of random players. Any player responding to the survey questions will be offered

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10/ Lotto Giving Numbers a Run for the Money. Gaming Business, December 1983. p. 36.

11/ Marketing Options for Video Gaming Continue to Expand. Public Gaming, February 1984. p. 73. Also, see: Video Lottery Test in Illinois Attracts Players -- and Critics. Wall Street Journal, August 24, 1984. p. 6.

12/ Ross, Irwin. Corporate Winners in the Lottery Boom. Fortune, September 3, 1984. p. 25.

13/ Nebraska Video Update. Public Gaming, July 1984. p. 52.

a free game. The information sought in the survey includes the player's age, zip code, game preferences, and gaming habits. After completion of the six-month test, Illinois State officials will review survey data and test results to determine the public's opinion about video lottery.

II. STATE LOTTERY FINANCES

State lottery revenues are generally divided into three categories: (1) operating expenses; (2) prize payments; and, (3) net proceeds (or revenues). Lottery operating expenses usually range between 10 and 15 percent of total lottery sales. Some States place statutory limits on the amount of gross sales that can be used for expenses. Prize payouts generally remain as a relatively steady portion of total sales, about 45 to 50 percent. After deducting lottery operating expenses (15 percent), and prize payouts (45-50 percent), the remaining portion of gross lottery revenues (35-40 percent) is net proceeds/revenues to State treasuries.

Table 1 shows gross lottery sales by State for 1983 and net revenues to States in absolute dollars and as a percent of gross sales. For this report, CRS conducted a telephone survey of all lottery jurisdictions; we found that interstate comparisons of all categories of lottery operations, including prizes and operating expenses, can be misleading because of differences in accounting procedures and variations in services provided by other State and local entities (e.g., licensed banks and ticket agents, personnel, advertising, building rental, computer rental, etc.). Finally, to indicate the relative importance of lottery operations, the last column in table 1 shows the percent of all State revenues accounted for by lotteries. The 1983 data shown in table 1 indicate a general correspondence between large gross sales and a high proportion of gross sales allocated for net revenues.

Table 2 shows by jurisdiction the date each lottery began operating, the manner of its authorization, and the use of lottery net revenues. The information shown in table 2 indicates that eight lottery jurisdictions specifically designate the purpose for which net lottery revenues are to be used. Nine jurisdictions and the District of Columbia allocate net revenues to the general fund.

TABLE 1. State Lottery Sales and Revenues, FY 1983
($ millions)

	Gross Sales	Net Revenues	Net Revenues As a Percent of Gross Sales	Net Lottery Revenues as a Percent of Total State Revenues
Arizona	$ 75.0	$ 31.8	42.4%	1.9%
Colorado	138.3 a/	41.7	30.1	2.8
Connecticut	188.0	80.5	42.8	2.5
Delaware	30.1	11.0	36.5	1.5
District of Columbia	50.5	13.2	26.1	0.7
Illinois	495.4	214.1	43.2	3.0
Maine	13.1	3.7	28.2	0.6
Maryland	462.8	198.2	42.8	6.4
Massachusetts	312.1	104.6	33.5	2.3
Michigan	548.9	221.2	40.3	2.5
New Hampshire	13.8	3.7	26.8	1.2
New Jersey	693.1	294.9	42.5	6.3
New York	645.0	275.2	42.6	1.7
Ohio	397.8	145.0	36.4	2.0
Pennsylvania	885.4	355.4	40.1	4.8
Rhode Island	43.0	14.7	34.2	1.3
Vermont	4.4	1.1	25.0	0.4
Washington	200.1 b/	66.7	33.3	1.8
Totals	$5,196.8	$2,076.7	---	---

a/ Jan. 24 - June 1983.

b/ Nov. 1982 - June 1983.

Source: State Legislature, March 1984.

TABLE 2. State Lottery Systems: Operational Date, Manner of Authorization, and Use of Net Revenues

State	Year Operational	Manner of Authorization	Use of Net Revenues
Arizona	1981	Initiative	Yearly minimum set by legislature for local transportation assistance fund. Balance to general fund.
Colorado	1983	Referendum	Fifty percent for capital construction; 40 percent for conservation trust fund, 10 percent for parks and recreation.
Connecticut	1972	Legislation	General fund.
Delaware	1975	Legislation	General fund.
District of Columbia	1982	Initiative	General fund.
Illinois	1974	Legislation	General fund.
Maine	1974	Referendum	General fund.
Maryland	1973	Initiative, legislation, and a referendum	General fund. Effective 10/31/83, lotto profits allocated to 24 political subdivisions, to expire 10/84. Legislation pending.
Massachusetts	1972	Legislation	Distributed to 351 cities and towns for discretionary use. The first $3 million of lotto is allotted for the arts.
Michigan	1972	Legislation	Primary and secondary education.
New Hampshire	1964	Legislation	Education.
New Jersey	1970	Referendum	Education and State institutions. $75,000 per year for compulsive gambling studies.

(continued)

TABLE 2. State Lottery Systems: Operational Date, Manner of Authorizations, and Use of Net Revenues -- continued

State	Year Operational	Manner of Authorization	Use of Net Revenues
New York	1967	Referendum	Elementary and secondary education.
Ohio	1974	Legislation	General fund.
Pennsylvania	1972	Legislation	Senior citizens.
Rhode Island	1974	Referendum	General fund.
Vermont	1978	Referendum	General fund (debt retirement and capital construction).
Washington	1982	Referendum	General fund.

Source: State Legislature, March 1984.

III. FUNCTIONAL CHARACTERISTICS OF LOTTERIES

A. Administrative Organization 14/

In most States, the governor appoints a State commission ". . . that establishes the rules and regulations of the lottery, determines the types of games to be conducted, and performs other advisory functions. . ."

A few States require that commission members bring with them some specific skills. For example, Colorado requires that its commission include members with backgrounds in the areas of law enforcement, business, accounting or legal work. Also, Connecticut Lottery Commission members must have backgrounds in either law, computers, police science, or business and finance; commission members in Ohio must have backgrounds in business, advertising, or public relations.

Not all State lottery systems have a commission; for example, Delaware, New York, and Pennsylvania do not have lottery commissions.

In every State with a lottery, lottery executive directors manage the day-to-day operations of the lottery. Often they are ". . . assisted by deputy directors in charge of finance, marketing, computer operations, security, and other divisions of the lottery. . ."

Some lottery commissions choose the executive director. In other States, this person is appointed by the governor.

B. Marketing of Lottery Games

The success of lottery games is measured by sales revenues which are dependent on marketing arrangements. Key marketing operations involve arrangements with lottery vendor suppliers and distributors, as well as advertising agencies.

1. Lottery Retail Vendors

The retailers, who sell lottery game products to the public, are indispensable to the whole State-run lottery process. These vendors are usually merchants operating retail establishments, such as drug stores, check cashing facilities, liquor stores, and others, who take on an agency role for the distribution of State lottery tickets (see table 3). Lottery retail agents work for commissions on lottery sales; commissions vary among the States, normally ranging from 5 to 6 percent of their sales. 15/

14/ The source for the information in this section is Gambling in America: Final Report, p. 147.

15/ Ross, Corporate Winners, p. 24.

Total vendor commissions involve millions of dollars; some examples: In FY83, Illinois paid out $33 million in vendor commissions; Michigan paid $34.5 million. During FY 84, Washington State paid nearly $9 million to its lottery vendors. Ohio returned $31 million in commissions and bonuses to its retail sellers during the same year. 16/ Fortune reported that New York lottery merchants with on-line connections averaged $7,138 in sales during a week in early July 1984. That translated into an average commission for that week of $428. Fortune observed that such a figure could spell the difference between profit or loss for some small merchants. 17/

Lottery vendors also experience both fixed up-front costs and on-line user (operational) costs for the privilege of selling lottery games. Some States require their agents to be bonded, while others do not. A few States require conditional bonding, e.g., only if credit is "poor, marginal or minimal" (Washington State), or as an alternative to a letter of credit (Pennsylvania). 18/ Some State lotteries pass on to their retail vendors the increasingly expensive costs of the telecommunication line installation and operation. Others, however, absorb these costs themselves. Table 4 provides details of the present on-line charge policies among ten State-run lotteries. 19/

2. Telecommunication Line and Service Vendors

Most State lotteries use telecommunication lines to connect retail agent terminals for on-line games to a central computer. The cost of these lines now demands careful management attention: "One of the issues most critical to the bottom lines of lotteries in the future will be the staggering rise in telecommunications costs." 20/

Technological change may ease this problem in the future. A major equipment vendor has introduced a radio communication system which circumvents the need for lottery on-line wired communications.

16/ Jurgens, Nora. The Lottery Leaps Ahead. Illinois Issues, November 1983. p. 26. Also, CRS telephone interviews with Michigan, Washington, and Ohio lottery officials.

17/ Ross, Corporate Winners, p. 25.

18/ Marketing Lottery Games, p. 26.

19/ Ibid.

20/ Marketing Lottery Games, p. 26.

TABLE 3. Number of Lottery Game Retail Vendors and Top Selling Categories, Selected States, 1984

State	Number of Retail Lottery Vendors	Top Retail Sales Categories
Arizona	2,300	1. Convenience stores
		2. Supermarkets
Illinois	7,000	1. Liquor stores
		2. Pharmacies
		3. Convenience stores
Maryland	1,300	1. Liquor stores
		2. Drug stores
		3. Convenience stores
Michigan	9,000	1. Drug stores
		2. Liquor stores
New Jersey	4,000	1. Liquor stores
		2. Grocery stores
		3. Pharmacies
New York	12,500	1. Newsstands
		2. Liquor stores
Ohio	5,600	1. Carry-outs
		2. Supermarkets
Pennsylvania	8,000	1. Newsstands
		2. Convenience stores
Washington	3,600	1. Supermarkets
		2. Convenience stores
		3. Food and drink restaurants

Source: CRS telephone interviews, September 1984.

TABLE 4. Retail Vendor On-Line Charge Policies in Ten State Lotteries

Connecticut	Only expense to agent is cost of dedicated powerline where location doesn't already have one.
Delaware	$7.50 per week line charge.
District of Columbia	No charge for use of terminal.
Maine	Agent pays for wiring; state pays for telephone costs.
Maryland	Agents are not charged for terminals.
New Hampshire	No charge to agent.
Ohio	Terminal and terminal installation free. Agents responsible for installation of dedicated AC lines. Agent pays $12 toward total weekly cost of $42 for Telco lines.
Pennsylvania	Agents pay $10 weekly telephone line charge.
Rhode Island	No charge for use of terminals or lines. Agents are responsible for installation costs.
Washington	Agent pays $400 for initial telephone installation; no charge for terminal. After 25 weeks, agents will pay up to 50 percent of line charge, not to exceed $15 per week.

Source: Marketing Lottery Games: Taking A Cool Approach With A Hot Product. Public Gaming, April 1984. p. 26.

3. Equipment and Service Vendors [21]

According to Corporate Winners, the most difficult functions associated with lotteries involve design, installation, and servicing of the computerized systems. However, some lottery jurisdictions relieve their operations of such tasks by entering into contracts with service and equipment vendors who provide fully set-up lottery systems. Maryland, Massachusetts, Michigan, and Ohio are among the States that retain vendors to service their lottery operations.

Companies currently engaged in the distribution or manufacture of lottery tickets and equipment include: Scientific Games, Inc., a subsidiary of Bally Manufacturing; Ticketron, a division of Control Data; Amtot Systems, a division of General Instrument; and GTECH Corporation, a computer firm largely owned by the Bass family. Generally, these companies get a percentage of lottery gross sales which vary among States. Another 1984 report notes that Scientific Games, Inc., is the most dominant lottery vending company, holding about 80 percent of the market; in 1983, Scientific Games sold more than 1.2 billion instant game tickets to 12 of the 18 lottery operations. In addition, the company provides computer-aided lottery demographic and marketing analyses. [22]

4. Promoting and Advertising State Lotteries

State-operated lotteries depend substantially on public acceptance of their structure, including frequency of drawing, size of prize, flexibility and availability of prize pay-outs. Advertising and promotional activities are considered important in gaining public acceptance.

The magnitude of the lottery prize is an important motivator of purchases. Most (non-lotto) individual lottery awards are prizes in the $2.00 to $10.00 range, or in the form of free opportunities to play again. Such low value prizes are widely distributed, so that most players are previous winners or know someone who has won. This positive player reinforcement is important in generating repeat customer sales. However, larger prizes are available and are extensively advertised to serve as the real thrust behind lottery sales.

Three basic products which allow players to choose their own numbers are popular: 3- and 4-digit numbers games, and lotto. Before their introduction, it was anticipated that the legal numbers games would make substantial inroads into the volume of illegal numbers games.

However, in the face of buyer resistance from illegal numbers players, managers of State lotteries targeted their marketing efforts to reach new players. Rather than have individuals switch from illegal to legal games, they tried to involve nonparticipants in the State-sponsored games. Thus, lottery managers have developed new forms of legal lottery games to attract additional players.

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[21] The source of information for this section is Ross, Corporate Winners, p. 21.

[22] Curry, Bill. State Lotteries: Roses and Thorns. State Legislature, May 1984. p. 16

The instant games are constantly being redesigned to give them the impression of "newness." The instants are seen as impulse buys. They do not benefit from the periodic, media-covered drawings as do the numbers games and lotto.

Lotto, another addition to the traditional lottery operation, is an on-line game like the 3- and 4-digit numbers games, and has attracted national attention because of multimillion dollar jackpots. Lotto is threatening to dethrone the numbers games as the leading revenue grosser, and is already the number one game in sales in New York State. Some lottery officials think lotto has helped expand the customer base for all the games.

There appears to be a strong positive correlation between lottery sales and the number of and the distributional breadth of lottery retail vending outlets. This seems to be especially true for lottery "impulse item" products such as instant games.

The Marketing Research Unit of the Arizona State Lottery has written extensively on the relationship between lottery marketing and demographics. It recently observed:

> . . . to the extent you can make the [lottery] product accessible at the time the public makes any purchase, increased sales will result. . . it is advantageous to maximize the availability of lottery products in a variety of locations, trafficked by varying segments of the population, and especially by under-represented sociodemographic segments of the population. 23/

a. Lotteries and Advertising

Most State lotteries do not spend more than 2 percent of annual gross revenue on advertising and promotion. 24/ As a percentage of their general revenues, advertising budgets have actually fallen slightly since the mid 1970s. 25/ The Commission on the Review of the National

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23/ Shippes, Glenn, Donna Schwartzman, Kim Reynolds, and Monique Carpenter. Why People Buy: Lottery Purchasing Dynamics. Public Gaming, January 1984. p. 8.

24/ CRS telephone interviews, September 1984.

25/ Gambling in America, p. 152; and CRS telephone interviews, September 1984.

Policy Toward Gambling observed that lottery advertising budgets (as a percent of gross sales) were "relatively small" when compared to those of private companies. 26/ The Commission then tried to explain why lottery advertising budgets are relatively small:

> . . . whereas consumer products in the private sector must compete with similar rival goods and services for public consumption, State lotteries exist as monopolistic promoters of an activity that offers an average profit of 40 percent. 27/

Table 5 details the amounts of money devoted to promotion and advertising budgets by eight State lotteries. It includes the four highest grossing States in FY 83 (in descending order): Pennsylvania, New Jersey, New York, and Michigan. Prior to the New York Lottery's record-setting FY 85 $12.3 million budget, no State lottery budget had ever passed over the $10 million mark.

Table 6 compares average annual growth rates for promotion and advertising budgets and lottery gross sales for five selected States between FY 73 and FY 84. The four highest-grossing lotteries (in FY 73) and one medium-grossing lottery (Connecticut) are listed. The table clearly shows that, for the recent decade, gross sales growth rates have significantly exceeded those for lottery advertising and promotion expenditures in these States.

b. Advertising Media

After Federal laws banning lottery information broadcasting were rescinded in the mid-1970s -- significant lottery advertising money shifted from print media into radio and television.

> In most lottery jurisdictions the largest percentage of media dollars are spent on television. . . Illinois, Pennsylvania and Arizona for instance, respectively direct 70 percent, 68 percent and 60 percent of their media money to TV [see table 7].
>
> Following television in order of relative importance is either radio or newspaper advertising, depending on the lottery. New Hampshire which does virtually no television advertising spends a whopping 60 percent of its media dollars on newspaper advertising. . . 28/

26/ Ibid.

27/ Ibid.

28/ Marketing Lottery Games, p. 23.

TABLE 5. Advertising and Promotion Budgetary Expenditures for Selected State Lotteries FY83, FY84, FY85
($ millions)

State	FY 83	FY 84	FY 85
Arizona	$3.0*	N.A.	N.A.
Connecticut	1.8	$2.5	N.A.
Massachusetts	6.9	N.A.	N.A.
Michigan	5.2	N.A.	N.A.
New Jersey	2.5	3.0	$4.5
New York	---	6.1	12.3
Pennsylvania	---	7.7	N.A.
Washington State	---	4.0*	N.A.

* Approximate.

N.A. = Not Available.

Source: CRS telephone intereviews, September 1984. Calculations by CRS.

TABLE 6. Annual Growth Rates for Selected State Lotteries: Gross Sales and Advertising/Promotion Expenditures from FY73 to FY84

State	Average Annual Percentage Increase in Gross Sales FY73-FY78	Average Annual Percentage Increase in Advertising/ Promotion Expenditures FY73-FY78
Connecticut	57.5%	14.6%
Michigan a/	39.5	27.0
New Jersey	59.7	4.6
New York	56.3	22.6
Pennsylvania	81.2	22.9

a/ Both rates are based on the FY 73 to FY 83 period gross. Sales in FY 73 were for 9 months of operation and were prorated for a year's time.

Source: Weinstein, David, and Lillian Deitch. The Impact of Legalized Gambling. New York, Praeger, 1974. p. 51; and CRS telephone interviews, September 1984.

Generally, lotteries ". . . have a public relations director whose main task is to get a 'good press.' Good public relations efforts complement the consumer advertising campaigns." 29/

Television is generally viewed as the medium producing the best advertisement recall. 30/ In addition to standard 30-second television ads, many lotteries use regularly-scheduled TV shows to conduct daily numbers drawings, and either a once or twice weekly lotto drawing. 31/

Newspapers serve a variety of lottery advertising needs that are not done as effectively by either radio or television. Newspapers are not viewed as effective at conveying lottery slogans or impulse to buy messages. 32/ Lottery newspaper ads tend to give more game details, for example, odds, prizes and how to play. Heavy players particularly like detailed data on odds and prizes. 33/

c. The Effectiveness and Future Developments in Lottery Advertising

There is no clear-cut relationship between advertising expenditures and lottery sales. For example, in New York, according to the 1983 Empire State Report, "instant game sales have been relatively stagnant for six years, selling about $90 million a year despite heavy promotion and frequent introduction of new versions. . . ." 34/ However, New York State Lottery advertising officials recently reported instant game sales growth of 45 percent across New York State during a 4-month period in 1984. The reason for the surge, they assert, was a significant incremental boost in instant game television advertising.

Historically, the lotteries have often proposed and justified their advertising budgets by comparison to the budgets of other lotteries. Industry marketing experts project an increasing role for sophisticated demographic studies. Many think these kinds of studies will greatly enhance the abilities of States to market their lottery products more successfully, and thus expand their sales.

29/ Weinstein and Deitch, The Impact of Legalized Gambling, p. 54.

30/ For example, see Anatomy of a State Lottery. Marketing and Media Decisions, October 1983. p. 134.

31/ Gambling in America, p. 152.

32/ Weinstein and Deitch, The Impact of Legalized Gambling, p. 52.

33/ Anatomy of a State Lottery, p. 134.

34/ Dawson, David. Bet-A-Buck for the Budget. Empire State Report, September 1983. p. 24.

TABLE 7. Distribution by Medium of Advertising Dollars, Selected State and Provincial Lotteries, 1983 (Percentage of total advertising expenditures)

State	Television	Radio	Newspaper	Outdoor/ Point of Sale/ Other
Maine	50%	12.5%	27.5%	10%
Illinois	70 a/	15 a/	11 a/	4 a/
Maryland	50	30	c/	20
Connecticut	35 a/	35 a/	20 a/	10 a/
Rhode Island	36	25	19	20
Arizona	60	16	16 b/	8
Ontario	49	6	26	19
Pennsylvania	68	2	21	9
Washington	45	20	11	24

a/ Approximate percentages.

b/ Includes 1 percent to magazines.

c/ Negligible.

Source: Public Gaming, April 1984. p. 22.

IV. LOTTERY PLAYER CHARACTERISTICS

This section summarizes some recent demographic studies on the types of people who play State-run lottery games. Characteristics such as player income, age, sex, occupation, race, education, and neighborhood residency are reviewed.

A. Income

Much debate has centered on the extent to which lower income groups participate in the lottery games. Recent studies of Connecticut and Pennsylvania indicated that lower income residents were responsible for a larger proportion of lottery sales than was their share of total State income. Pennsylvania families earning less than $5,000 annually accounted for 3.2 percent of State income, but generated 5.7 percent of the State's gross lottery sales. Similarly, lower income individuals in Connecticut made 5.3 percent of State lottery purchases but received only 1.3 percent of aggregate State income. 35/

While it appears that lower income groups spend a larger proportion of their income on lottery games, most available data indicate that lottery playing is primarily a pastime of middle or upper income groups. For example, a recent survey of New Jersey, New York, Washington State, Arizona, Maine, Michigan, Pennsylvania and Colorado was undertaken by Scientific Gaming, a major vendor of service and equipment to many State lotteries. The survey indicated that 70 to 75 percent of lottery players are from households with incomes of $15,000 annually or more. 36/

Other studies confirm the dominant middle income player presence. Colorado reviewed the claim forms of recent lottery winners and determined that its average player was a male making over $30,000 a year with at least a high school education. Another study conducted by Scientific Games (this time of five lottery States) revealed that the most frequent lottery participation came from members of households earning between $23,000 and $33,000. 37/

B. Education

Colorado reviewed the claim forms of its lottery winners and determined that its average player had at least a high school education. 38/ This appears to be pretty much the norm among States. However,

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35/ Curry, State Lotteries, p. 11.

36/ Dispelling the Myths in the Gaming Industry. Public Gaming, December 1983. p. 29.

37/ Supplee, Curt. Lotto Baloney. Harper's, July 1983. p. 21.

38/ Ibid., p. 20.

indications are that participation rates based on education level vary depending on the game played.

The 1982 Koza Study of New Jersey player demographics reported the following educational characteristics of lottery players:

- New Jersey residents with less than 8 years of education played the three-digit game at a rate 15 percent higher than their share of the State's population.
- College educated residents were underrepresented as 3- and 4-digit numbers game players.
- Individuals with 4 years or more of college were underrepresented as players of lotto and instant games.
- Residents with no formal education, through residents with up to 3 years of college, played lotto and instant lottery at rates generally reflective of their respective population shares.
- Those residents with four years or more of college were moderately underrepresented as players of the instant game and lotto. 39/

C. Employment

There is virtually no information available on the employment status of lottery players. In one isolated example, the 1982 study of New Jersey's players reported:

- Professional, managerial, blue collar and unemployed workers all played lotto and instant games in rates similar to their population shares. 40/

D. Sex

The prototypical lottery player is a male; his race may vary, although for the most part he is white. Interestingly, Ohio recently determined that its average player was a black male. 41/

Some lottery jurisdictions report that participation rates among their male and female players are converging. Koza, however, found

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39/ Koza, John. Comparative Demographics of Six Lottery Products. Public Gaming, June 1982. p. 23.

40/ Ibid.

41/ Supplee, Lotto Baloney, p. 20.

distinctly different rates of play among New Jersey's adult males and females. He found the following:

- Males played the 3-digit numbers game at a rate 16 percent above their share of the State population.

- Females played the 3-digit numbers at a rate of 17 percent below their percentage in the population.

- Men were overrepresented as instant and lotto game players by respectively 21 and 16 percent more than population shares.

- Females played lotto and the instant lottery game at rates 15 and 19 percent below their proportions in the State population. 42/

E. Age

The demographic data on the average or typical lottery player's age vary. Ohio found that its typical lottery player was an unmarried black male over 50 years of age. Colorado determined that its typical lottery player was white, male and middle-aged. Similarly, the State of Arizona ascertained that its typical player was over 40. 43/

In New Jersey, Koza found that most lottery players were in the 25-to-54-year-old age group, an unsurprising result since this age group accounted for 40 percent of the State's population. However, the over-54 age group in New Jersey had a higher than average participation rate in lottery games. 44/

F. Ethnic and Neighborhood Characteristics

One part of Koza's study of New Jersey's lottery players examined the lottery play characteristics of residents in 44 distinct neighborhood types. The neighborhood categories were differentiated on the basis of such characteristics as residents' average income level; the type and value of neighborhood residential housing; whether it was suburban, urban or rural; age of residents and their dominant ethnic make-up. 45/

Significant findings in Koza's study indicate that:

42/ Koza, Comparative Demographics, p. 20.

43/ Supplee, Lotto Baloney, p. 20.

44/ Koza, Comparative Demographics, p. 23-29.

45/ Ibid.

- Residents of low income minority neighborhoods played the 3- and 4-digit numbers games at rates more than 150 percent greater than that of their population shares.

- Residents of affluent, white collar neighborhoods, dwelling in condominiums or high rent apartments, were also overrepresented as 3- and 4-digit numbers players, i.e., 40 percent more than their share of the population.

- The residents of two white ethnic neighborhood categories were significantly overrepresented in all four lottery games (3- and 4-digit numbers, instant, and lotto). One type was inhabited by white collar, Western European descendants residing largely in single-family houses of pre-1940 vintage. The other neighborhood type contained blue collar descendants of Eastern European immigrants; for the most part they lived in low rent apartments in buildings more than 40 years old.

- Neighborhoods with the highest rate of lotto participation among their inhabitants were those with young, urban "lower-middle income" white and Hispanic families -- the participation rate was 88 percent over their population percentage.

- Residents of low-income, "owner-occupied mobile home areas" and from neighborhoods with large concentrations of the elderly and retired also played lotto at rates significantly in excess of their population shares.

- Residents of post-1940 suburban neighborhoods with very affluent older families and similarly aged suburban neighborhoods containing "blue collar, middle income" families were also significantly overrepresented as lotto participants.

V. FEDERAL RESTRICTIONS ON DISSEMINATION OF STATE LOTTERY INFORMATION

A. Present Law

A common popular view of lotteries in the 19th century was that they were corrupt, fraudulent, and degenerative. With this attitude in mind, the Congress at that time sought to deny lotteries the use of the instruments of interstate commerce. Federal laws were passed restricting use by lotteries of postal, broadcasting, and other interstate commerce facilities. 46/

In 1975, however, Congress exempted State-run lotteries from many of these restrictions. At that time, twelve State-run lotteries had already been placed in operation. Today, these restrictions and the exemptions for State-run lotteries are found in chapter 61 of title 18 of the United States Code (sections 1301-1307). Section 1301 prohibits the importation or transportation in interstate commerce of the following:

> any paper, certificate, or instrument purporting to be or to represent a ticket, chance, share, or interest in or dependent upon the event of a lottery, gift enterprise, or similar scheme, offering prizes dependent in whole or in part upon lot or chance, or any advertisement of, or list of the prizes drawn or awarded by means of, any such lottery, gift enterprise, or similar scheme;. . . 47/

The mailing of items related to a "lottery, gift enterprise, or similar scheme offering prizes dependent in whole or in part upon lot or chance" is forbidden by 18 U.S.C. 1302. 48/ That statute covers: (1) letters, packages, postcards or circulars concerning such games, (2) lottery tickets (or parts thereof) or other items representing a ticket, chance, share or interest in a game, (3) checks, drafts, bills, money, postal notes or money orders for purchase of those tickets or chances, and (4) newspapers, circulars, pamphlets or other publications containing

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46/ The authority of Congress to so legislate was upheld in Champion v. Ames, 188 U.S. 321 (1903).

47/ Such conduct is punishable by imprisonment for not more than two years, a fine of not more than $1,000, or both.

48/ Lotteries have generally been distinguished as having three essential elements: (1) the furnishing of consideration, (2) the offering of a prize, and (3) the distribution of the prize by chance rather than entirely on the basis of merit. Brooklyn Daily Eagle v. Voorhies, 181 F. 579 (C.C. E.D. N.Y. 1910). The Supreme Court has said: "whatever may be the factual differences between a 'lottery', a 'gift enterprise,' and a 'similar scheme', the traditional tests of chance, prize, and consideration are applicable to each." F.C.C. v. American Broadcasting Co., 347 U.S. 284, 290, n. 8 (1954).

an advertisement for such games or containing a list of prizes drawn or awarded. 49/

The Federal prohibition on broadcasting of lottery information is found at 18 U.S.C. 1304 which punishes "whoever broadcasts by means of any radio station for which a license is required by any law of the United States, or whoever, operating such a station, knowingly permits the broadcasting of any advertisement of or information" concerning a lottery or similar game. 50/ Section 1304 also outlaws the broadcast of lists of prizes drawn or awarded. 51/

The statutory exception to these provisions (and 18 U.S.C. 1303 prohibiting Postal Service employees from involvement in lotteries) is 18 U.S.C. 1307 which exempts State-conducted lotteries from many of these restrictions. That section defines a "lottery" as "the pooling of proceeds derived from the sale of tickets or chances and alloting those proceeds or parts thereof by chance to one or more chance takers or ticket purchasers." Bets or wagers on sporting events or contests are specifically excluded from the exemption.

Section 1307(a) states that 18 U.S.C. 1301-1304 do not apply to information about lotteries (advertisements, lists of prizes or other information) run by a State if (1) contained in a newspaper published in that State or in an adjacent State which also conducts such a lottery, or (2) broadcast by a radio or television station licensed to a location in that state or an adjacent state which conducts such a lottery. Transportation and mailing of "equipment, tickets, or material" is permissible under section 1307(b)(1) to addresses within a state concerning a lottery conducted by that State (under the authority of State law), or (2) to addressees within a foreign country if that material is designed to be used within that foreign country in a lottery authorized by the law of that country. 52/

49/ This section carries the same penalty as § 1301 save that subsequent offenses may be punished by up to five years imprisonment.

50/ This provision applies to television as well. See, e.g. F.C.C. v. American Broadcasting Co., 347 U.S. 284, reh. denied, 347 U.S. 965 (1954); Caples Co. v. United States, 243 F.2d 232 (D.C. Cir. 1957) See also, 38 Am. Jur. 2d Gambling § 140 (1968).

51/ The penalty under § 1304 is imprisonment for not more than a year, a $1,000 fine, or both.

52/ At the time of original enactment of 18 U.S.C. 1307 (P.L. 93-583),Congress also amended 39 U.S.C. 3005 to incorporate these exemptions regarding mailing restrictions. Prior to that time, 39 U.S.C. 3005 barred as "nonmailable," mail relating to a lottery. Also amended at that time was 18 U.S.C. 1953(b) which criminalizes interstate transportation of wagering paraphernalia. These sections (18 U.S.C. 1307, 18 U.S.C. 1953(b), and 39 U.S.C. 3005) were amended in 1976 (P.L. 94-525) to create the present exemption regarding publication in an (continued)

B. Recently Proposed Legislation

The 98th Congress has considered legislation to further expand the exemptions contained in 18 U.S.C. 1307 to allow advertising of games which are State sponsored though not State-run. That proposal (S. 1876 and H.R. 5097), as reported to the full Senate by the Senate Judiciary Committee, would amend 18 U.S.C. 1307 to remove existing prohibitions against disseminating information in interstate commerce, through the mails, or over the airwaves "concerning a lottery, gift enterprise, or similar scheme authorized, licensed, and regulated by a State acting under authority of State law." The Senate Report (S. Rept. No. 98-537, 98th Cong., 2d Sess.) describes the effect of the operative section of the bill:

> The Section affects only the free flow of information including commercial speech and does not change Federal law with regard to the mailing or transportation of lottery tickets, equipment, or payment for lottery tickets; the prohibitions of 18 U.S.C. 1301-1304 are modified only so far as they apply to "an advertisement, list of prizes, or information," which terms are drawn from the prohibiting statutes. Those statutes would therefore no longer prohibit the mailing of letters, newspapers, magazines and the like that contain articles, advertisements or other information dealing with legal, state regulated games, nor would they prohibit broadcast of advertisements or news stories about such games. (at 4).

The types of games exempted would be determined by the "supervisory authority" of a State, not its actual regulatory practice:

> Coverage under this Section of the bill extends only to communications concerning lotteries, gift enterprises, or similar schemes that are given affirmative legal sanction by the State in which they are conducted and over the regular operation of which the State has supervisory authority. That small charitable and other non-profit lotteries because of size, frequency of operation, or other characteristics are exempted by law from more general State regulatory provisions does not deprive them of coverage under this bill. Moreover, the word "licensed" contemplates that the activity have complied with all substantive and procedural requirements set out under the necessary regulatory apparatus designed by the State, while it does not contemplate that the activity have received a formal "permit" where none is required by State law. (at 5).

(continued) adjacent State, and again in 1979 (P.L. 96-90) to exempt transportation or mailing to foreign countries.

To date the full Senate has taken no action on the proposal. On the House side, subcommittee hearings have been held on H.R. 5097 (an identical bill) but there has been no further legislative action. The Justice Department has testified that it is not in opposition to such legislation:

> Previously, we had taken a stand in opposition to bills such as this to prevent conflict with laws of States where lotteries are illegal, as well as those with authorized lotteries, but restrict[ing] the advertising permitted with respect thereto. Our position has changed, Mr. Chairman, because of the action of the Supreme Court in Bigelow v. Virginia, which casts serious doubt upon the enforceability of the lottery statute as presently written. [53]

Legislation has also been introduced in the 98th Congress to permit the mailing and broadcasting of advertising concerning lotteries or similar schemes conducted by non-profit organizations in accordance with State law (see, e.g., H.R. 4020). No such legislation has as yet been reported out of committee.

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[53] Modernizing Federal Restrictions on Gaming Advertising. Hearing Before The Subcommittee on Criminal Law of The Senate Judiciary Committee, 98th Cong., 1st Sess. 6-7 (1983). Bigelow v. Virginia, 421 U.S. 809 (1975), involving dissemination of abortion information, held that such commercial speech was protected by the First Amendment and that the purveyor of a service legal in the State where it is carried on is free to advertise that service in a State where providing it would be illegal.

VI. SUMMARY

Lotteries have a history dating back to colonial times, and are available in many different forms including legal numbers, lotto, and video instant lottery games. Since the revival of lotteries by New Hampshire in 1964, they have been introduced by 16 other States and the District of Columbia. Before deducting prize money and administrative costs, these jurisdictions had gross lottery sales of $5.2 billion in 1983; net revenues after deductions were $2.1 billion, ranging in importance from 0.4 percent of all State revenues in Vermont to 6.4 percent of total State revenues in Maryland.

As a general rule, an executive director and deputies are responsible for State lottery operations. In most States, policy decisions and strategic planning are the responsibility of an advisory commission appointed by the governor.

Lotteries are complex systems whose operations depend on a coordinated flow of goods and services. Vendor commissions and procurement expenditures provide millions of dollars in private sector revenues, and benefit a broad range of participants including advertising agencies, telecommunication line and service companies, game design companies, computer service and equipment companies, and tens of thousands of retail establishments.

The twenty-year history of State-run lotteries is a dynamic one, with the sponsoring agencies searching out ways to expand the player base, experimenting with the introduction of new games, and expanding the retail distribution network. Available demographic studies indicate that lotteries have a broad appeal.

Federal restrictions imposed on gambling enterprises exempt State-run lotteries. The exemptions allow the free flow of lottery information through newspapers and broadcast media. Mailing tickets and related information within a State, or to certain foreign countries, is permitted for State-run lotteries.

APPENDIX

CONGRESSIONAL INTEREST IN LOTTERIES IN THE 98th CONGRESS

LEGISLATION

Lottery-related Law Enacted During the 98th Congress

P.L. 98-186 (S. 450)

Grants the United States Postal Service certain investigatory and enforcement authority concerning the use of the mails to conduct schemes for obtaining money by false representations and lotteries.

Signed into law November 30, 1983.

Lottery-related Legislation Introduced During the 98th Congress

H.R. 85 (Collins, et al.)

Establishes a national lottery the revenues from which shall be used to help finance the Old Age, Survivors and Disability Insurance program.

Introduced January 3, 1983, referred to more than one committee.

H.R. 193 (Holt, et al.)

Amends the Internal Revenue Code to repeal the withholding tax requirements for gambling winnings.

Introduced January 3, 1983, referred to the Committee on Ways and Means.

H.R. 1342 (Leland, et al.)

Grants the United States Postal Service certain investigatory and enforcement authority concerning the use of the mails to conduct schemes for obtaining money by false representations and lotteries.

Introduced February 8, 1983, referred to Committee on Post Office and Civil Service.

H.R. 2720 (Vucanovich, et al,)

Amends the Internal Revenue Code to provide that net legal wagering gains shall not be included in gross income.

Introduced April 25, 1983, referred to Committee on Ways and Means.

H.R. 2731 (Vucanovich, et al.)

Amends the Internal Revenue Code to repeal the withholding tax requirements with respect to gambling winnings.

Requires information returns for gambling winnings only for payments of $10,000 or more.

Introduced April 25, 1983, referred to Committee on Ways and Means.

H.R. 2793 (Reid, et al.)

Amends the Internal Revenue Code to provide that the deduction for wagering losses shall be allowable as a deduction from gross income but only with respect to wagering transactions which are legal under Federal and State laws.

Introduced April 27, 1983, referred to Committee on Ways and Means.

H.R. 2998 (Dorgan)

Amends the Internal Revenue Code to exempt income derived by a charitable organization from conducting games of chance from the tax imposed on unrelated business income.

Introduced May 12, 1983, referred to Committee on Ways and Means.

H.R. 3538 (Schulze, et al.)

Amends the Internal Revenue Code to revise the withholding rules relating to certain gambling winnings by raising the threshold amount at which withholding begins. Phases in this new withholding threshold over a period of three years.

Introduced July 12, 1983, referred to Committee on Ways and Means.

H.R. 4020 (Sensenbrenner, et al.)

Amends the Federal criminal code to allow for the advertising of lotteries conducted in accordance with State law by nonprofit or charitable organizations.

Introduced September 28, 1983, referred to more than one committee. Hearings held June 14, 1984.

H.R. 5097 (Reid, et al.)

Amends the Federal criminal code to allow for the advertising, transporting, mailing, or broadcasting between States of materials and information concerning State-conducted or authorized lotteries.

Introduced March 8, 1984, referred to Committee on the Judiciary. Hearings held, June 14, 1984.

H.R. 6241 (Luken)

Creates a commission to study the establishment of a national lottery.

Introduced September 13, 1984, referred to Committee on Ways and Means.

S. 1876 (Laxalt, et al.)

Amends the Federal criminal code to allow for the advertising, transporting, mailing, or broadcasting between States of materials and information concerning State-conducted or authorized lotteries.

Introduced September 22, 1983, referred to Committee on the Judiciary. Hearings held Nobember 16, 1983. Reported to Senate (S. Rpt. No. 98-537) June 28, 1984.

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U.S. Congress. House. Committee on the Judiciary. Subcommittee on Administrative Law and Governmental Relations. Hearing on H.R. 4020, H.R. 5097, and other measures, 98th Cong., 2d Sess. June 14, 1984. To be printed.

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----- Committee on the Judiciary. Subcommittee on Criminal Law. Modernizing Federal Restrictions on Gaming Advertising. Hearing, 98th Cong., 1st Sess., on S. 1876. November 16, 1983. Washington, U.S. Govt. Print. Off., 1984. 81 p.

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The Need for a National Policy on Compulsive Gambling

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U.S. Senate

Washington, DC

October 1984

I have studied and worked in the field of pathological gambling (more commonly referred to as "compulsive" gambling) since 1972. This has been in a variety of capacities - as researcher, community psychologist, educator and clinician. I wish to share with members of this Senate Subcommittee some national trends which are emerging in the United States. These trends are cause for alarm and merit the serious attention of this committee.

Increase of Compulsive Gambling

After three years of exhaustive study, starting in 1972, the Commission on the Review of the National Policy Toward Gambling stated in Gambling In America: Final Report that there were an estimated 1.1 million compulsive gamblers and another 2.2 million potential compulsive gamblers in the United States. This represented approximately .77% of all adults in this nation.

This figure was considered very conservative by members of Gamblers Anonymous. It was also considered by members of The National Council on Compulsive Gambling and The National Foundation for Study & Treatment of Pathological Gambling to be conservative. A more frequently cited estimate is between 6 and 10 million compulsive gamblers in the United States at this time.

There are several reasons for these beliefs and the increase in the number of compulsive gamblers.

Limited availability of gambling. At the time of the Commission study, legalized gambling in the United States consisted for the most part of horse and/or harness racing in most states, dog races and jai alai in a few states, some state lotteries, and casino gambling in Nevada. The effect of this limited legalized gambling was to restrict gambling to those individuals who had both the time and the money to travel to race tracks or to Nevada. Legal gambling was not readily accessible and financially possible for all segments of our society.

Lotteries. A decade ago the gaming industry and state legislatures started a movement to legalize numerous forms of gambling in the U.S.

Abstract

The number of pathological (compulsive) gamblers is on the increase. Membership in Gamblers Anonymous currently is reflecting a diversity in age, race, sex, education, income and vocation not previously evidenced. This diversity corresponds with the increase of legalized and illegal gambling (e.g., lottery and video gaming devices). Treatment programs are few and inadequate. Prevention and education programs are virtually non-existent. National policy on pathological gambling needs to be established.

This was based on the rationale that taxes and profits from legalized gambling would provide needed revenues for state government coffers. Furthermore, It was anticipated that legalized gambling would reduce illegal gambling (although strongly contra-indicated by the Commission). Thus began the major thrust for implementation of state lotteries, which continutes to this date, and has expanded to Congress with the introduction of a bill to establish a national lottery.

The consequence of state lotteries is that gambling is now accessible to nearly anyone within walking or short-driving distance. Lottery gambling is also available to anyone over 18 for fifty cents. Furthermore, through marketing efforts and media interest in multi-million dollar lottery prizes, citizens are reminded and encouraged on a daily basis to participate in lottery gambling.

Casino gambling. The gaming industry's efforts to legalize casino gambling was not limited to Atlantic City. The industry has spent considerable money and efforts in attemptsto legalize casino gambling in Florida, Pennsylvania, Connecticut, New York, Louisiana, and other states. Also, whereas Las Vegas casino gambling typically has been viewed as gambling for the "high roller", Atlantic City gambling was being promoted for the casual, "average citizen" type of gambler.

Economy. The economic trends of the past several years, with high interest rates, lower purchasing power of the dollar, under- and unemployment have all served to encourage low income and fixed income citizens, in particular, to seek alternate means of supplementing their income. The lure of the lotteries, and quick gain for minimum effort, were hard to resist. The numbers of gamblers and the amounts wagered increased.

Computer technology. Another major influence on recent increased gambling activities is that of the advancement in computer technology. School children learn to use computers in school and at home. There are numerous programs of a variety of gambling games, such as poker and blackjack, available for these computers and school children.

Additionally, arcade games such as PacMan, Atari and Star Wars rapidly gained popularity in our competitive society. Unfortunately, these games of skill were soon replaced with games of chance, such as Joker Poker, Black Jack, Dwarfs Den, Bust My Balloons, Dawg Race, and others. Although billed "For Amusement Only", these games pass the test of being gambling devices per se. Although illegal, credits are paid off in cash by the owner of the machine or his representative. These machines have been distributed throughout the country, and are found in bars, arcades, hotels, restaurants, private clubs, fraternal organizations, bowling alleys, pool halls - virtually everywhere.

Social Acceptance of Gambling

This movement of legalization of gambling has already impacted on social mores and morality. To wit, gambling has become a socially accepted activity. Legality of gambling is no longer an issue. Individuals, who formerly refused to gamble on the grouds that gambling was illegal (such as numbers or after-hours clubs), now gamble at bingo, lottery, racetracks, casinos, off-track betting parlors, jai alai, and tele-betting, just to name a few.

Legalized gambling has removed the spector of morality in many instances. Bingo gambling is now legal in many states. Most bingo games traditionally were held in churches and to a lesser extent in fire halls. Bingo games now are also held in schools. (There is evidence now, also, that bingo games are frequently associated with other forms of gambling, such as instant lotteries and line betting by bookies.) Nevertheless, putting bingo in traditional neighborhood establishments, such as churches, fire halls and schools, has removed the specter of sinfulness in favor of acceptance.

Another major force was moving across the country at this time, namely, the women's liberation movement. Equal opportunity for women was extended not only to employment securement, but also to credit availability. Access to cash for gambling was no longer the hindrance it formerly had been for women.

Additionally, with the increase of divorced (i.e. single) women, and the emancipation of the homemaker and the career woman, it has now become socially acceptable for a woman to enter a casino or bar without a male escort. She can gamble when she chooses to gamble. She has the means and the opportunity to gamble which traditionally were denied her in the past.

Women, minorities, low-income groups - all now have equal opportunity to gamble, and to become a compulsive gambler.

Variations in Gambling Addiction

Pathological gambling was classified as an illness by the American Psychiatric Association in its Diagnostic and Statistical Manual of Mental Disorders, Third Edition, in 1979. Listed under Impulse Control Disorder (Section 312.31), it is commonly referred to as a psychological addiction and a hidden illness.

Until the past five years or so, the most typical description of a compulsive gambler who attended Gamblers Anonymous was that of a middle aged, middle class, white male, usually a businessman or professional. Gambling activity centered mainly on horse betting, casino gambling, sports betting, poker, or betting on stocks, commodities or options.

With the advent of lotteries, membership in Gamblers Anonymous included female compulsive gamblers, blacks, and lower-income people. They generally had a history of a more limited experience with gambling, gambling primarily on the lottery, and for a shorter duration until they "bottomed out." Nevertheless, these new members of Gamblers Anonymous reflected a similar history to the more typical GA members regarding crimes committed to support their gambling habit.

With the advent of the video gaming machines, compulsive gambling became truly democratic. "Poker machine addicts now include teenagers, retired people, men and women, usually lower class and less educated people, and individuals from all levels of vocations, from unskilled laborers to clerks, bartenders, salespersons and professionals.

The major difference with lottery addicts and poker machine addicts from the more traditional compulsive gambler, is that the time period from the onset of gambling, to compulsive gambling and to "hitting bottom" is considerably shorter. Whereas previous studies show a pattern of typically ten to fifteen years or more of compulsive gambling, with lottery and poker machine addicts this period is dramatically reduced, to as little as a few months.

In other words, the addictive quality of the games themselves, together with the accessibility and the availability of these two forms of gambling, lottery and video machines, are rapidly increasing the number of compulsive gamblers. This is of particular concern since the lottery industry is in the process of implementing video machine lottery games.

This increase in the number of compulsive gamblers is clearly evidenced by the growth of Gamblers Anonymous and GamAnon chapters in the United States. For instance, the first GA chapter was formed in Los Angeles in 1957. In 1972 there were 170 GA chapters. By 1983 there were 524 chapters in 42 states. New chapters are being formed almost on a weekly basis, both within GA and within GamAnon. GamAteen chapters are now being formed also. Current membership in Gamblers Anonymous is approximately 80,000. Many GA chapters are composed of an equal number of men and women. Some chapters are composed totally of females.

Need for National Policy

The need for national policy on compulsive gambling is clearly evidenced. State legislatures across the nation are implementing state lotteries and other forms of gambling. The gaming industry is expending considerable effort to thwart present laws regarding video gambing devices. Virtually every state has bills in its legislature to legalize already existing forms of gambling or to introduce a variety of new forms of gambling.

At present there are less than a dozen professional inpatient treatment programs for compulsive gamblers. The maximum bed capacity is approximately one hundred. There are slightly more outpatient professional treatment centers.

The number of professionally trained mental health therapists who are also trained or experienced to treat compulsive gamblers is less than one hundred. The number of compulsive gamblers runs in the millions. Family members who urgently need treatment amount to an even larger number.

There is an urgent need for prevention programs, community education, training of mental health professionals, research into etiology and treatment modalities, and, of course, treatment for compulsive gamblers and for their families.

Compulsive gambling behavior results in broken homes, serious medical problems, suicide attempts, domestic violence and child abuse. Financial problems result in loss of home, bankruptcies, increased welfare costs, and a variety of crimes, both violent and non-violent.

This country needs to seriously consider the impact of legalized gambling - what is the effect on the community, on the family, and on the individual. What are the gains of legalized gambling, and what are the costs of legalized gambling? How can these costs be minimized?

This country can ill afford to ignore the problems caused by compulsive gambling.

I wish to thank this Senate Subcommittee for permitting me to be heard.

Brief Statistics on "Poker Machine" addicts

In Scranton, PA, ten of the 12 most recent new members were poker machine addicts.

In Baltimore, MD, it is estimated that half of all GA members are poker machine addicts.

In Las Vegas, approximately half the membership of GA are poker machine addicts. Approximately half the GA membership is composed of women.

In New York, one GA chapter has 45 poker machine addicts.

A survey on over 500 compulsive gamblers and spouses from 26 states indicates poker machine addicts are in GA chapters in all of these states.

A survey on 15 poker machine addicts attending a GA chapter in an Eastern city resulted in the following data:

Age

3 were between 21 and 30 years of age
6 were between 31 and 40
6 were between 41 and 51   Mean age was 35 years old

Annual income

2 earned $10,000 or less annually
4 earned between $11,000 and $17,000
2 earned $25,000
5 earned between $30,000 and $35,000
1 earned $80,000 annually
I was unemployed, mean income was $26,000.

These 15 poker machine addicts gambled on the machines for varying time periods:

3 for one year
3 two years
1 three years
5 four years
1 six years
1 eight years
1 twenty-five years (pinball and poker machine)

Mean of 3 years, excluding the pinball addict.

Where did you gamble on poker machines?

15 in bars
8 private clubs
6 restaurants
6 fraternal organization
2 hotel
2 casino
2 arcade
1 each in bowling alley, pool hall, cab company, and everywhere or anywhere they paid off

What kind of work do you do?

3 were in sales, 2 are machinists, and one each responded clerk, coal miner, production worker, general labor, firefighter, newspaper circulation, computer technician, self-employed, and professional. One was unemployed.

How much did you lose as a result of these machines?

1 $200 per week, for 4 years, plus lost my home
5 between $2000 and $3,500
2 between $17,000 and $20,000
1 between $25,000 and $30,000
1 $40,000
1 $300,000
1 "lost thousands, still owe thousands"
1 don't know, losses were heavy, still owe $23,000
1 amount is incomprehensible

What types of crimes did you engage in to support your poker machine addiction?

11 wrote bad checks
5 forged checks
4 forged signatures on loans, credit cards
3 embezzled
3 stole goods
3 filed false insurance claims or other report
2 loansharked
1 became a bookie
1 became a bag man and numbers runner

11 committed 2 or more types of crimes
5 committed from 4 to 8 types of crimes
2 were arrested for crimes committed to support their gambling
3 were fired as a result of the gambling